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In The

Supreme Court of the United States

BYRON Z. MOLDO, Chapter 7 Trustee of the Estate of CYBERNETIC SERVICES, INC., d/b/a Silent Radio, Inc.,

Petitioner,

v.

MATSCO, INC., and MATSCO FINANCIAL CORPORATION,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the Patent Act, 35 U.S.C. § 261, preempts state law rules for perfecting a security interest in a patent against subsequent bona fide purchasers.

2. Whether due to the Bankruptcy Code, 11 U.S.C. § 544(a)(2), a bankruptcy trustee qualifies as a subsequent bona fide purchaser under Patent Act § 261.

3. Whether under 28 U.S.C. § 1295(a)(1) the Federal Circuit has exclusive jurisdiction to decide these issues in an appeal from a bankruptcy court order granting relief from an automatic stay.

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OPINIONS BELOW

The opinion of the Ninth Circuit Court of Appeals (App. 1-36) is reported at 252 F.3d 1039 (9th Cir. 2001). The opinion of the Bankruptcy Appellate Panel is reported at 239 B.R. 917 (9th Cir. BAP 1999). (App. 49-64.) The opinion of the bankruptcy court is unreported. (App. 39-48.)

JURISDICTION

Jurisdiction existed in the district court under *inter alia* 28 U.S.C. § 1334. The court of appeals issued its judgment on June 6, 2001. A timely petition for rehearing was denied on August 2, 2001. (App. 65-66.) The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The Supremacy Clause of the Constitution provides in relevant part: "[T]he Laws of the United States . . . shall be the supreme Law of the Land . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding." U.S. Const. Art. VI, cl. 2.

The relevant statutory provisions are: the Patent Act, 35 U.S.C. § 261 (App. 67); the Bankruptcy Code, 11 U.S.C. § 544(a)(1), (App. 69); and the Judiciary Code, 28 U.S.C. § 1295(a) (App. 70).

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STATEMENT

A. Significance of this Case

How does a creditor perfect a security interest in a patent against a bankruptcy trustee? The question has caused considerable confusion whether, in light of *Waterman v. Mackenzie*, 138 U.S. 252 (1890), the federal patent recording system preempts state law.

Patent Act § 261 says that any "assignment grant or conveyance" of a "patent or interest therein" not timely recorded in the Patent and Trademark Office (PTO) is void against a subsequent bona fide purchaser. These requirements must preempt state law if: (i) a patent security interest is a covered transfer; and (ii) a bankruptcy trustee qualifies as a bona fide purchaser.

Prior to this case, the trial courts had agreed that under *Waterman* a security interest must be recorded in the PTO to gain priority over a subsequent bona fide purchaser. They disagreed, however, on whether the bankruptcy trustee was covered under § 261.

The Ninth Circuit now maintains that § 261 does not preempt state law because a security interest is a "mere license," not an "ownership" transfer. It reasons that: (i) *Waterman* limited § 261 to "absolute conveyances" of "legal title" which would exclude security interests; and (ii) a security interest is not an "ownership" transfer under secured transactions law.

This reasoning fails to appreciate that § 261 covers two different types of patent ownership: actual ownership (legal "title") and ostensible or beneficial ownership ("possession"). *Waterman* held location of legal title under

a patent mortgage is essential for standing to sue *infringers*, but did not eliminate the need to record evidence of ostensible ownership to gain priority over bona fide *purchasers*. A security assignment classically grants a right enforceable in equity to transform the ostensible ownership given by possession into actual ownership. As this Court and other circuits have confirmed, § 261 applies to equitable as well as legal assignments. Moreover, the claim that a security interest is not an "ownership transfer" under state secured transactions law is contrary to California statutory and decisional law.

The holding that security interests are "mere licenses" outside § 261 has serious consequences. If patent law makes a security interest a "mere license" when it attaches, then it cannot assign patent title when foreclosed, rendering it essentially valueless. Alternatively, if this "mere license" becomes an assignment of title on foreclosure with priority under state law over bona fide purchasers who have filed in the PTO, then this reads § 261 out of existence.

As to the status of a bankruptcy trustee, the Ninth Circuit says that for patents a trustee is a lien creditor by attachment or levy, not a purchaser. However, in *Ager v. Murray*, 105 U.S. 126 (1882), this Court held a creditor cannot lien a patent by attachment or levy. Instead, to reach a patent a creditor must appoint a receiver and proceed to judicial sale, a result confirmed by other circuits and the California Supreme Court. A judicial sale purchaser for value and without notice is protected by Patent Act § 261. Congress gave a trustee the independent lien avoidance power of such a judicial sale purchaser in

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11 U.S.C. § 544(a)(2). The Ninth Circuit now also reads § 544(a)(2) out of existence.

The third conflict is with the exclusive jurisdiction of the Federal Circuit over appeals in cases that arise under the Patent Act. A case "arises under" the Patent Act when an interpretation of its terms is essential to a resolution of the case. *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1987). As the bankruptcy court found (App. 47), the right to relief of both parties turned solely on the construction of Patent Act § 261. Yet the Ninth Circuit, without explanation, refused to transfer the appeal to the Federal Circuit. (App. 37-38.)

The decision below, facially void for lack of jurisdiction, and in conflict with controlling decisions of this Court, merits review.

B. Proceedings Below

The parties stipulated to the relevant facts. (App. 79.) Cybernetic Services, Inc. (Cybernetics) developed a patent for a data recorder that was duly registered in the Patent and Trademark Office (PTO). On October 17, 1990, it granted a blanket security interest to Matsco, Inc. and Matsco Financial Corporation (Matsco). The collateral included "general intangibles," which the parties agreed granted a security interest in the patent. A UCC-1 financing statement was timely filed with the California Secretary of State. Matsco did not record any evidence of its security interest in the PTO.

On April 23, 1997 three creditors filed an involuntary Chapter 7 petition against Cybernetics. (App. 89.) On

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June 27, 1997, an order for relief was granted. (App. 87.) On July 2, 1997, Byron Z. Moldo was appointed Chapter 7 Trustee ("Trustee"). (App. 86.)

On May 8, 1997, Matsco sought relief from the automatic stay. (App. 44.) The petitioning creditors responded arguing Matsco's security interest was not properly perfected due to failure to file in the PTO. The parties stipulated to the relevant facts. (App. 79-84.) As the bankruptcy court found, the stipulation meant the success of either party depended whether the security interest was properly perfected in light of the Patent Act. (App. 47.)

On September 14, 1998, the bankruptcy court granted relief from the automatic stay, concluding as a matter of law that Matsco did not need to file evidence of its security interest in the PTO to perfect against the Trustee. (App. 40-48.) The Trustee appealed. The Bankruptcy Appellate Panel of the Ninth Circuit issued an adverse opinion on September 29, 1999. (App. 49-64.)

The Trustee filed a timely notice of appeal on October 27, 1999. The Trustee moved to transfer to the Federal Circuit, which motion the Ninth Circuit denied without opinion on June 1, 2000. (App. 37-38.) The Ninth Circuit issued its judgment on June 6, 2001. (App. 1-36.) The Trustee's timely petition for rehearing was denied without opinion on August 2, 2001. (App. 65-66.)

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REASONS FOR GRANTING THE PETITION

This case raises three issues of law: (i) whether a security interest is an "assignment, grant or conveyance" of a "patent or interest therein" within the preemptive recording requirements of the Patent Act; (ii) whether a bankruptcy trustee must be treated as a bona fide purchaser under the Patent Act; and (iii) which court of appeal has jurisdiction to so decide. The jurisdictional issue turns on the need to interpret Patent Act § 261. Without minimizing its importance, but for ease of exposition, this petition therefore starts with the construction of § 261.

I. A Patent Security Interest Must Be Subject To Patent Act § 261 To Preserve The Integrity Of The Patent Recording System.

A. Patent Act § 261 Preempts Contrary State Law.

Under the Supremacy Clause, U.S. Const. Art. VI, cl. 2, federal law preempts state law where state law conflicts with federal law, where application of state law would frustrate a federal scheme, or where Congress intended to occupy the field. *Allis-Chalmers Corp. v. Luek*, 471 U.S. 202, 209 (1985); *Lear v. Atkins*, 395 U.S. 653 (1969).

Section 261 of the Patent Act, 35 U.S.C. § 261, says that an "assignment, grant or conveyance" of "a patent or any interest therein" is void against "any subsequent purchaser or mortgagee for a valuable consideration, without notice," unless timely recorded in the PTO. Congress enacted this provision in the Act of July 8, 1870, 16

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Stat. 198, c. 230, § 36, and it has remained essentially unchanged to this day. (App. 68.)

Patent Act § 261 fulfills two related but distinct purposes. The first is to identify the legal owner a patent to prevent a division of the patent monopoly resulting in multiple suits against infringers. *Gayler v. Wilder*, 51 U.S. (10 How.) 509, 519-520 (1850); *A.L. Smith Iron Co. v. Dickson*, 141 F.2d 3 (2nd Cir. 1944). The second is to identifying the ostensible owner of a patent to protect bona fide purchasers against fraudulent transfers. *Littlefield v. Perry*, 88 U.S. 205, 221 (1874); *CMS Industries, Inc. v. L.P.S. International, Ltd.*, 643 F.2d 289, 295 (5th Cir. 1981).

Article 9 of the Uniform Commercial Code, as adopted in California, governs the creation, perfection and enforcement of security interests in personal property.[1] A patent is a "general intangible" under Article 9. Cal. Comm. Code § 9106. A creditor perfects a security interest in a general intangible against a bona fide transferee by filing a UCC-1 financing statement with the California Secretary of State. Cal. Comm. Code § 9302(1). Under Patent Act § 261, a creditor must timely file a security assignment in the PTO to gain priority over a subsequent bona fide purchaser. If the state perfection scheme for security interests conflicts with or frustrates the federal priority scheme for patents, state law must yield.

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[1] Article 9 is codified in the California Commercial Code §§ 9101 *et seq*. Effective July 1, 2001, California amended Article 9. Cal. Stats 199 ch 991 § 34 (SB 45). References to the California Commercial Code refer to the prior version of the statute applicable here.

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The first issue, then, is whether a security interest is an "assignment, grant or conveyance" or a "patent or interest therein." Facially, it is. Since its enactment, Patent Act § 261 has covered a "collateral assignment" or "mortgage." *Waterman v. Mackenzie*, 138 U.S. 252, 258 (1890); *Ormsby v. Conners*, 133 Fed. 548, 549 (C.C. D. Mass. 1904). Article 9 amalgamated all pre-Code security devices into a single construct, the "security interest." *See* Grant Gilmore, Security Interests in Personal Property, § 11.1, p. 333 (1965). A security interest by definition includes an assignment and a mortgage. Cal. Comm. Code § 9102(b)(2).

As a result, lower courts have treated security interests as transfers within Patent Act § 261. *E.g., City Bank & Trust Co. v. Otto Fabric, Inc.*, 83 B.R. 780, 782 (D. Kan. 1988); *In re Transportation Design & Technology, Inc.*, 48 B.R. 635, 640 (Bankr. S.D. Cal. 1985); *Magnuson Indus., Inc. v. Co-Rect Prod., Inc.*, 213 USPQ 652, 656 (1981); *Bates v. United States*, 214 Ct.Cl. 832, 833 (1977). The only question has been whether § 261 covers a bankruptcy trustee. *Otto Fabric* and *Transportation Design* said "no" on the ground that the trustee is only a lien creditor. *In re Peregrine Entertainment, Ltd.*, 116 B.R. 194 (C.D.Cal. 1990), discussing comparable provisions in the Copyright Act, said otherwise. This issue is discussed in § II.A, *infra*. Until now, however, courts have agreed that a security interest must be recorded in the PTO for priority over a later bona fide purchaser.

The Ninth Circuit now holds that under *Waterman* a security interest is not an assignment at all but a "mere license," (App. 20-21), which would exclude security interests from the recording requirements of § 261 for any purpose. This holding misreads *Waterman*, patent law and secured transactions law.

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B. The Court Below Misreads *Waterman* On the Difference Between Actual and Ostensible Ownership.

Like other forms of property, two different ownership interests can exist simultaneously in a patent: "legal title" and "equitable title." Ernest Bainbridge Lipscomb III, Lipscomb's Walker on Patents, § 19:2 (3rd ed. 1988 supp.). Secured transactions law conceptualizes these interests as actual ownership ("title") and ostensible ownership ("possession"). *Waterman* held that location of legal title under a patent mortgage determines standing to sue *infringers*. *Waterman* did not eliminate the need to record notice of ostensible title in the PTO to prevail against bona fide *purchasers*. The patent recording system Congress adopted in 1870 covers both types of ownership. A brief look at secured financing law explains why.

At common law, a transfer of legal title to personal property without a delivery of possession was a fraudulent conveyance, void against subsequent purchasers and creditors. *Twyne's Case*, 13 Co. Rep. 806, 76 Eng. Rep. 809 (Star Chamber 1601); Gilmore, *supra*, § 2.1. As a result, personal property finance transactions involve both "title" and "possession." If these are separated, proper notice of the financing must be given to avoid a fraudulent conveyance. At common law, the only way to give such notice was by pledge, which required the creditor to take physical possession of the chattel. Gilmore, *supra*, § 1.1. In the Nineteenth Century, legislatures adopted chattel mortgage acts that allowed financing without a change of possession by recording notice in a designated filing office. *Robinson v. Elliott*, 89 U.S. 513, 520-521 (1875);

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Gilmore, *supra*, § 2.2. Recording was deemed equivalent to a change of possession. *Berson v. Nunan*, 63 Cal. 550, 552 (1883). However, state chattel mortgage acts were limited to tangible personal property. Gilmore, *supra*, § 2.8, pp. 57-60. Congress adopted the patent recording system in 1870 to protect the public against fraudulent conveyances of patent intangibles by providing a national repository to identify the actual and ostensible owners of a patent. *See Secombe v. Campbell*, 2 F. 357 (C.C. S.D.N.Y. 1880).

In *Waterman v. Mackenzie*, Mrs. Waterman assigned a patent to Shipman as security for a debt and he assigned to Mackenzie. When she sued Mackenzie for infringement, he asserted she lacked of standing to sue. *Waterman* was concerned about standing to sue infringers, not notice to bona fide purchasers, but its discussion of patent financing law at the time is instructive on the scope of the patent recording system.

This Court first said that the assignment " . . . being a conveyance made to secure the payment of a debt . . . was a mortgage in apt terms and legal effect." *Waterman*, 138 U.S. at 258. As intangibles, patents were properly financed under the law of assignment, and a security transfer was a "collateral" assignment. Gilmore, *supra*, § 2.8. However, courts often treated a "collateral assignment" as equivalent to a "mortgage" to give the debtor the same right of redemption as under a mortgage. *Ormsby v. Conners*, *supra*, 133 Fed. at 549. *Waterman* affirmed this approach.

Waterman then noted there were two different views of a mortgage. In some states, they were treated as an

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immediate transfer of legal title; in others, as liens. *Waterman*, 138 U.S. at 258. Since this is the point where the court below became lost, it is important to understand the significance of the issue.

The "title theory" said a mortgage was an immediate transfer of legal title subject to defeasance on condition subsequent by paying the debt. The "lien theory" said the mortgagee had a "special property interest" in the form of a lien and power of sale that vested title upon condition broken (non-payment) and proper foreclosure. *See* 11 C.J. *Chattel Mortgages* § 1 (comparing theories). The substantive difference had nothing to do with recording; it was about debtor protection. In title states, for improper foreclosure the debtor could only petition in equity to apply the fair value of the collateral to the debt; in lien states, improper foreclosure eliminated any right to a deficiency. *See Metheny v. Davis*, 107 Cal.App. 137, 139, 290 P. 91 (1930). Under both theories, however, an unrecorded chattel mortgage was void against later creditors and purchasers. 11 C.J. *Chattel Mortgages* § 191. Recording was essential to give notice of possession regardless of the location of legal title.

After acknowledging the two types of mortgages, *Waterman* had to decide who had standing to sue infringers under the mortgage in issue. Since it was a "title theory" mortgage that granted Shipman the "whole title," and recording confirmed possession, only he could sue for infringement. *Waterman*, 138 U.S. at 260. Contrary to the court below (App. 19), *Waterman* did not limit the recording requirements under § 261 to ownership transfers involving "title" mortgages. Just the reverse, *Waterman* said, 138 U.S. at 260 (emphasis added):

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> "[T]he assignee of a patent by mortgage, whose security is constantly wasting by lapse of time, must be held (*unless otherwise provided in the mortgage*) entitled to grant licenses, to receive license fees and royalties, and to have an account of profits or an award of damages against infringers."

If the mortgage "otherwise provided" legal title, and resulting standing, could remain in the mortgagor.

The court below confuses the two different types of ownership under § 261. Legal *title* is essential for standing to sue third party infringers while the mortgage is in effect. But both title and lien mortgages must be recorded in the PTO to give public notice of *possession* to bona fide purchasers. *Waterman* never held a creditor under a lien mortgage that left legal title in the debtor could circumvent the need to record notice of the financing.

This is how lower courts have applied *Waterman*. In *Ormsby v. Conners, supra*, a Massachusetts circuit court considered a "lien" mortgage, duly recorded in the PTO, leaving title in the debtor. *Ormsby* concluded that, under *Waterman*, the "lien" mortgage was good and gave standing to the mortgagor. *Accord Cook v. Bidwell*, 8 Fed. 452 (C.C. W.D. Penn. 1881). *In re Transportation Design* and *City Bank & Trust Co. v. Otto Fabric, Inc.* both held that security interests, even without an immediate transfer of legal title, must be timely recorded in the PTO to prevail against a subsequent bona fide purchaser.

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C. The Decision Below Conflicts With This Court and Other Circuits On Transfers Covered By Patent Act § 261.

The Ninth Circuit, however, claims § 261 only covers "ownership" transfers making an "absolute conveyance." (App. 20.) Its discussion of *Waterman* indicates that by "ownership" it means "legal title." (App. 25-26.) It concludes that any other transfer, such as a security interest, is a "mere license" outside § 261. (App. 20-21.) This reasoning fails to recognize that patent ownership also arises by equitable assignment, and a security interest makes an equitable assignment.

An equitable title is a beneficial right to take legal title. *General Motors Corp. v. Blackmore*, 53 F.2d 725, 727 (6th Cir. 1931); *see generally* Lipscomb, *supra*, § 19:28. For example, the assignment of an invention before it is reduced to practice transfers an expectant interest; this is a valid equitable title which vests legal title in the assignee upon filing the patent application. *Filmtec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572 (Fed. Cir. 1991).

In *Littlefield v. Perry*, *supra* 88 U.S. at 225, this Court held that an assignor's right to recover the patent for condition broken on non-payment of royalties (a lien) was an equitable interest that must be recorded in the PTO to prevail against subsequent bona fide purchasers. *See also Hendrie v. Sayles*, 98 U.S. 546 (1878) (prior patent act of 1836 required equitable assignments to be recorded to prevail against bona fide purchasers).

Other examples of equitable title include the interest of creditors, where legal title to a patent is assigned in trust to a third party to hold for their benefit as security

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for a debt, *Western Battery & Supply Co. v. Hazelett Storage Battery Co.*, 61 F.2d 220, 231 (8th Cir. 1932); the right of creditors who loan money to construct and patent an invention where the inventor claims legal title, *Caulkins v. Lavigne*, 156 Mich. 89, 120 N.W. 607 (1909); a patentee's right of reversion under a partial assignment given as collateral security, *Cook v. Bidwell, supra*, 8 Fed. at 456; the title of a debtor, where a patent is assigned for security, *Bates v. United States, supra*, 214 Ct.Cl. at 833; a party's interest when another party in breach of contract procures legal title to a patent in his own name. *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998).

The holder of an equitable title is an "owner" even though another holds legal title. *Heinemann v. United States*, 620 F.2d 874, 877 (Ct.Cl. 1980); *Bates v. United States, supra*. An equitable title holder is entitled to equitable remedies for infringement of its interest, such as an injunction, but not the legal remedy of damages for infringement, which is only available to the holder of legal title. *Arachnid, Inc. v. Merit Industries, Inc.*, 939 F.2d 1574, 1580 (Fed. Cir. 1991).

In addition to *Littlefield* and *Hendrie*, the Second Circuit, *Faulkner v. Empire State Nail Co.*, 67 Fed. 913 (2nd Cir. 1895), the Fifth Circuit, *CMS Industries v. L.P.S. International, Ltd., supra*, 643 F.2d at 296, and the Federal Circuit, *Heidelberg Harris, Inc. v. Loebach, supra*, 145 F.3d at 1454, *Filmtec Corp. v. Allied-Signal, Inc., supra*, 939 F.2d at 1572, all hold that under § 261 equitable assignments must be timely recorded in the PTO to prevail against a bona fide purchaser.

A transfer of property as security for a debt creates an equitable interest, giving the right, enforceable in

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equity, to transform the beneficial ownership given by possession into actual ownership. *Bridge v. Kedon*, 163 Cal. 493, 499, 126 P. 149 (1912) (security assignment granted equitable ownership); *James v. P.C.S. Ginning Co.*, 276 Cal.App.2d 19, 22, 80 Cal.Rptr. 457 1969); 4 Pomeroy, Equity Jurisprudence (4th ed.) § 1235. Under Article 9 a security interest, when it attaches, grants the creditor a right to take "all of the debtor's rights" in the collateral upon default and foreclosure. Cal. Code 9504(1) & (4). Such a transfer conforms to an "equitable" ownership interest subject to § 261.

As the Trustee consistently maintained in his briefs and oral argument, this right to take legal title on foreclosure is an ownership interest. His opening brief to the Ninth Circuit began, "A security interest effects 'title' because it allows the creditor to transfer ownership of the collateral on default. Two different systems cannot establish consistent ownership priority in the same asset." Indeed, if a security interest is not an ownership transfer, then it is essentially worthless. To see why, one need only ask: who owns the patent?

When the involuntary petition was filed against Cybernetics, patent title vested in the bankruptcy estate. 11 U.S.C. § 541(a). The estate is a legal entity separate from the pre-petition debtor. *In re Lazar*, 200 B.R. 358, 371 (Bkrtcy. C.D. Cal. 1996), *modified on other grounds*, 237 F.3d 967 (9th Cir. 2001). If the security interest only granted a "mere license" when it attached, then the bankruptcy estate now owns patent title, subject to the "mere license." *See U.S. v. Whiting Pools, Inc.*, 462 U.S. 198, 203-204 (1983).

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Such a license must be nonexclusive. An exclusive license of a patent is equivalent to an assignment, *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995), and the decision below says the security interest was not an assignment. Since the license is nonexclusive, the estate can grant other licenses, or even sell the patent, subject only to the "security license." *Heidelberg Harris, Inc. v. Loebach, supra*, 145 F.3d at 1458. Under the Bankruptcy Code, 11 U.S.C. § 552(a), however, the estate keeps all the income from so doing, since it would derive from the estate's title, to which the security "license" does not and cannot attach. Such a limited "license" could have little if any value.

It cannot be both ways. If a patent security interest is a "mere license" when granted, then a "mere license" it must remain when foreclosed. If a patent security interest is to transfer legal title when foreclosed, then it must transfer the conditional or equitable right to do so when it attached, and thus is subject to § 261.

D. The Decision Below Conflicts With California Law That A Security Interest Is An Ownership Transfer.

The court below also claims that a security interest is outside § 261 because it is akin to a "lien" or a "pledge" and these are not ownership transfers under state secured transactions law. (App. 22-23.) It says that since in 1870 patents were financed by pledge, and the Act of 1870 did not mention pledge, Congress must have intended to exclude pledges then, and by extension security interests today, from § 261. (App. 23-24.) California courts disagree.

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First, since intangibles are incapable of physical possession, at common law they could only be pledged by a written assignment of title. *Christian v. Atlantic N.C. Railroad*, 133 U.S. 233, 242 (1889); *Casey v. Cavoc*, 96 U.S. 467, 477 (1877). As the California Supreme Court held in *Joint Pole Association v. J.A. Steele*, 213 Cal. 233, 236, 2 P.2d 335 (1931):

> "Incorporeal property . . . cannot be pledged without a written transfer of title. . . . Such transfer of title performs the same office that delivery of possession does in case of a pledge of corporeal property."

Congress did not mention "pledge" in the Act of 1870 because "assignment" more than sufficed.

Second, in 1872 the California legislature enacted Cal. Civil Code § 2888. (App. 71.) It says that, despite any agreement to the contrary, a lien does not transfer title. In California to this day, one cannot create a "title" pledge or mortgage. An assignment of title in pledge is a lien, *Fraser v. Sheldon*, 164 Cal. 165, 172, 128 P. 33 (1912), as is a mortgage. *Hopkins v. Anderson*, 218 Cal. 62, 63, 21 P.2d 560 (1933).

Nonetheless, a pledge or a mortgage has always been an ownership transfer. *Smitton v. McCullough*, 182 Cal. 530, 537-538, 189 P. 686 (1920) (mortgage); *Works v. Merritt*, 105 Cal. 467, 469, 38 P. 1109 (1895) (pledge). And a pledgee or mortgagee is a bona fide purchaser. *Smitton*, 182 Cal. at 537-538; *Floyd v. Riskin*, 25 Cal.App.2d 297, 300, 77 P.2d 233 (1938). The reason is obvious. The pledge or mortgage transfers an ostensible ownership, *Bridge v. Kedon*, *supra*, 163 Cal. at 499, that gives the creditor the

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right on default and foreclosure to take legal ownership of the collateral, which is the whole purpose of a lien. *Greve v. Ledger, Ltd.*, 64 Cal.2d 853, 858, 52 Cal.Rptr. 9, 415 P.2d 824 (1966). The same rule applies today under Article 9. By definition, a "purchaser" includes a creditor taking by mortgage, pledge or lien, including a security interest. Cal. Comm. Code § 1201(32) & (33). (App. 73.) Ronald A. Anderson, Uniform Commercial Code § 1-201:425, 434 (3rd ed. 1996) (cases nationwide).

Third, a patent cannot be financed by common law pledge. Gilmore, *supra*, § 1.4, p. 16. Patent Act § 261 requires a recording for priority. One cannot "pledge" a patent by making a written assignment and turning over the patent certificate. Such a "pledge" is void against bona fide purchasers unless timely recorded in the PTO. *Magnuson Indus., Inc. v. Co-Rect Prod., supra*, 213 USPQ at 656. The California rule is identical. One can pledge chattel paper by taking possession. Cal. Comm. Code § 9305. But a patent is a general intangible, not chattel paper. A patent security interest is only perfected by filing a financing statement in the proper filing office. Cal. Comm. Code § 9302(1).

In holding a patent could and can be "pledged," the Ninth Circuit is creating a financing method that has never existed under federal law and does not exist under state law today. Allowing such an unrecorded "pledge" to prevail over bona fide purchasers who timely record in the PTO reads § 261 out of existence and allows the very fraudulent conveyances § 261 was enacted to prevent.

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In 1870 Congress provided a single nationwide filing repository to protect bona fide purchasers against fraudulent conveyances of a patent, whether outright, for security, by mortgage or in "pledge." California also requires all patent security interests to be perfected by recording in the proper filing office. The only issue is where. Since 1870 the proper office has been and must be the PTO.

E. National Importance of This Case

The decision below now threatens the integrity of the national patent filing system. In California, and doubtless many former lien theory states, one cannot make a "title" security interest. If the decision below reduces all "lien" security interests to mere licenses, then existing patent financiers could quickly find their security has become worthless. Secured financing of patents could evaporate, depriving inventors of a valuable source of revenue to fund new discoveries.

On the other hand, if the decision below means a security "license" can evade giving public notice of the financing, but nonetheless operate as an assignment of title on foreclosure, then this "license-assignment" turns patent law on its head, sets the Ninth Circuit at odds with this Court and other circuits on the need to record equitable assignments, and eliminates the PTO as a reliable source of information about patent ownership.

This threat to the national patent recording system in the PTO merits review.

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II. A Bankruptcy Trustee Is A Bona Fide Purchaser Under The Patent Act.

If a patent security interest must be recorded in the PTO to prevail over a bona fide purchaser, is still necessary to show that a bankruptcy estate or trustee is within § 261. An estate is a purchaser but not a bona fide purchaser, and so is not covered. Under Bankruptcy Code § 544(a)(2), however, a trustee is. The court below nonetheless asserted that the Trustee here was only a "hypothetical lien creditor." (App. 26.) The holding again conflicts with this Court, other circuits and the California Supreme Court.

A. Bankruptcy Code § 544(a)(2) Accords the Trustee Bona Fide Purchaser Status For Patents.

To protect against secret liens, Bankruptcy Code § 544(a) gives a trustee the maximum lien avoidance power of any involuntary creditor under non-bankruptcy law, regardless of whether such a creditor actually exists. 11 U.S.C. § 544(a); 5 Collier on Bankruptcy, ¶ 544.02, fn. 7 (15th ed. Rev. 1999). Ordinarily, a trustee exercises this "strong arm" power under § 544(a)(1), which gives a trustee the avoidance power of a lien creditor by attachment or levy. However, lien creditor status is the result of the "strong arm" power, not the extent of the power. The trustee has other avoidance powers to deal with cases where lien creditor status is unavailable.

In *Ager v. Murray*, 105 U.S. 126 (1882), this Court held that an involuntary creditor cannot lien a patent by attachment or levy. Federal law requires a patent to be

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transferred by an instrument in writing signed by a "patentee, or his assigns or legal representatives." 35 U.S.C. § 261. A sheriff levying under a writ of attachment or execution acts *in rem*, not *in personam*, is not a legal representative of the patentee, and therefore may not attach or levy on a patent. *Ager*, 105 U.S. at 131; *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 853 (2nd Cir. 1963); *Kenyon v. Automatic Instrument Co.*, 160 F.2d 878, 884 (6th Cir. 1947); *Inventions Corp. v. Hobbs*, 244 Fed. 430, 444 (2d Cir. 1917); *Newton v. Buck*, 77 F. 614 (2d Cir. 1896); *Ball v. Coker*, 168 Fed. 304 (C.C. D.S.C. 1909); *Jewett v. Atwood Suspender Co.*, 100 Fed. 647 (C.C. D.Vt. 1900); *also Coldren v. Am. Milling Research & Dev. Co.*, 177 Ind. App. 134, 378 NE2d 870 (1978) (Ind. Law); *but see McClaskey v. Harbison-Walker Refractories Co.*, 138 F.2d 493, 498-99 (3d Cir. 1943) (allowing levy on grounds Pennsylvania law gave patentee same rights as under creditor's bill). As a result, a bankruptcy trustee cannot be a lien creditor by attachment or levy where patents are concerned.

Ager held a judgment creditor could only reach a patent through a creditor's bill in equity after a writ of execution *(feiri facias)* was returned unsatisfied *(nulla bona)*. *Ager*, 105 U.S. at 129-131. This required the creditor to petition the court in equity to order the patentee to appear and execute a transfer, or to appoint a receiver to do so as the patentee's representative if the patentee refused. Modern practice in many states replaces the creditor's bill with a supplemental proceeding. *See* 23 C.J.S. *Executions* § 57. Mere appointment of a receiver, however, is not enough; the creditor must conduct a judicial sale to apply the patent to the debt. *Ager*, 105 U.S. at 131; *Inventions Corp. v. Hobbs, supra; Ball v. Coker*, 168

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Fed. 304 (c.c. D.S.C. 1909); *Finnegan v. Finnegan*, 64 Cal.App.2d 109, 112, 148 P.2d 37, 38 (1944). As a judicial sale purchaser, the creditor is then entitled to record the deed in the PTO and, if for value and without notice, invoke the protection of Patent Act § 261. *CMS Industries, Inc. v. L.P.S. International, Ltd., supra*, 643 F.2d at 289; *Kenyon v. Automatic Instrument Co., supra*, 160 F.2d at 883-884.

Congress gave the trustee the independent lien avoidance power of a creditor proceeding by such "equitable execution" in § 544(a)(2). As 5 Collier on Bankruptcy ¶ 544.06, pg. 544-11 explains:

> "Section 544(a)(2) of the Bankruptcy Code provides that the trustee has the right of a creditor with a lien return unsatisfied. . . . The effect of the trustee having a writ of execution returned unsatisfied is not to give the trustee any kind of lien, but to vest the trustee with the equitable rights of a hypothetical creditor with a writ of execution unsatisfied, that is a creditor who has exhausted its legal remedies."

Due to *Ager*, that must be deemed the Trustee's status here: a creditor with a writ of execution against the patent returned unsatisfied. As such, the Trustee could invoke the procedures to appoint a receiver, obtain a written transfer of the patent, and become a purchaser under the Patent Act. Under § 544(a)(2), the Trustee must be deemed to have exercised that power and recorded his purchase for value and without notice in the PTO. *See Sampsell v. Straub*, 194 F.2d 228, 231 (9th Cir. 1952) *cert. den.* 343 U.S. 927 (1952) (trustee deemed to have recorded abstract); *In re Peregrine Entertainment, Ltd.*, 116 B.R. 194, 207 (C.D.Cal. 1990) (trustee deemed to have recorded

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copyright transfer for value and without notice in Copyright Office). The Trustee, as a subsequent purchaser for value and without notice, must prevail over a security interest not recorded in the PTO under the express language of Patent Act § 261.

Although this is a matter of federal law, the California Supreme Court has twice held patents are not subject to levy under state law. *Peterson v. Sheriff*, 115 Cal. 211, 46 P. 1060 (1896); *Pacific Bank v. Robinson*, 57 Cal. 520 (1881). In California a creditor's bill in equity and a supplemental proceeding both create an equitable lien, Cal. Code of Civ. Proc. §§ 697.910 & 697.920, but for property not capable of physical possession, the lien has no effect on a bona fide encumbrancer without notice. Cal. Code of Civ. Proc. § 697.740(a). (App. 71.) In California, the Trustee could not obtain a lien effective against Matsco, a prior bona fide encumbrancer. Instead, the Trustee must appoint a receiver and hold a judicial sale.

In any case, the avoidance power in § 544(a)(2) is independent of § 544(a)(1). The Trustee could invoke California's receivership procedure to purchase the patent regardless of the existence of other remedies. Cal. Code of Civ. Proc. § 708.620. (App. 72-73.)

Under Bankruptcy Code § 544(a)(2), *Ager* and its progeny, a bankruptcy trustee must be deemed a purchaser of a patent for value and without notice. The Trustee is therefore within the protection of Patent Act § 261.

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B. The Ninth Circuit Erred in Failing To Treat The Trustee as a Bona Fide Purchaser.

The Ninth Circuit declined to consider whether the Trustee was a bona fide purchaser under the Patent Act on the ground that the issue had been "waived." (App. 5, fn. 3.) But this is the essential issue in this case. It was fairly raised before and ruled on by the lower court, and should have been addressed in a *de novo* review.

In the bankruptcy court, the Trustee argued that decisions denying him relief as a mere lien creditor, *Transportation Design* and *Otto Fabric*, were wrongly decided. He relied on language in *In re Peregrine Entertainment, supra*, that the Patent Act was comprehensive enough to include a trustee. (App. 47.) Although *Peregrine* dealt with copyrights, this reliance was sound. The Act of 1870 included a copyright recording system identical to that for patents. (App. 68-69.) *Ager* itself relied on an earlier holding in *Stevens v. Gladding*, 58 U.S. (17 How.) 447 (1855) that a creditor cannot lien a federal copyright by attachment or levy. A question need not be raised in particular words so long as the lower court is fairly put on notice of the substance of the issue. *Nelson v. Adams USA, Inc.*, 529 U.S. 460, 469 (2000).

The bankruptcy court concluded as a matter of law that the Trustee could not prevail because *Otto Fabric* and *Transportation Design* held that Patent Act § 261 does not extend to lien creditors. (App. 47.) This was precisely the point appealed on: reliance on those cases was misplaced because the Trustee is not a lien creditor. A circuit court of appeals reviews conclusions of law *de novo* as if appealed directly from the bankruptcy court. *In re Pacific*

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Far East Lines, Inc., 889 F.2d 242, 244-245 (9th Cir. 1989); *In re Commercial Western Finance Corp.*, 761 F.2d 1329, 1333 (9th Cir. 1985). On appeal, it is always appropriate to consider a pure question of law that does not depend on the factual record. *In re American West Airlines*, 217 F.3d 1161, 1165 (9th Cir. 2000); *In re Professional Investment Properties*, 955 F.2d 623, 625 (9th Cir. 1992).

A *de novo* review does not mean the higher court merely reads photocopies of the papers filed below. It means an independent review of the lower court's conclusions of law, without deference to the reasons. *Salve Regina College v. Russell*, 499 U.S. 225, 231 (1990). As *Salve* explained, 499 U.S. at 231-232:

> "Such review of legal issues best serves the dual goals of doctrinal coherence and economy of judicial administration. . . . The logistical burdens of trial advocacy limit the extent to which trial counsel is able to supplement the district court's legal research with memoranda and briefs. . . . As questions of law become the focus of the appellate review, it can be expected that the parties' briefs will be refined to bring to bear on the legal issues more information and more comprehensive analysis than was provided in the district court."

The issue in this case has caused so much confusion because it requires study of federal patent and bankruptcy law, and state secured transactions and enforcement of judgment law, both as they existed in 1870 and are applied today. Refinement of issues and more comprehensive analysis is both expected and required in a court of appeals.

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In his opening brief, reply brief and oral argument before the Ninth Circuit the Trustee argued that he must be treated as a bona fide purchaser due to Bankruptcy Code § 544(a)(2). The issue should have been addressed by the court below and is appropriately considered by this Court. *Moragne v. State Marine Lines*, 398 U.S. 375, fn. 1. (1970).

C. National Importance Of This Issue.

This Court has not had occasion to interpret Bankruptcy Code § 544(a)(2) and instruct the lower courts on its application to intangible collateral, especially patents. But it is an essential right Congress gave a bankruptcy trustee. At a time of widespread distress in the technology sector, resolution of this issue is significant for national bankruptcy policy.

III. The Federal Circuit Had Exclusive Jurisdiction Over The Appeal In This Case.

Federal district courts have original jurisdiction over cases "arising under any Act of Congress relating to patents." 28 U.S.C. § 1338(a). The Federal Circuit has exclusive jurisdiction over appeals where the district court's jurisdiction was based "in whole or in part" on § 1338. 28 U.S.C. § 1295(a)(1). A case "arises under" patent law when "some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws." *Christianson v. Colt Industries, supra*, 486 U.S. at 807-808.

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Christianson stressed that the jurisdictional test depends on the "well-pleaded complaint" rule, 486 U.S. at 808-809 (emphasis added):

> "Linguistic consistency, to which we have historically adhered, demands that § 1338(a)'s jurisdiction likewise extend only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action *or that plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that federal patent law is a necessary element of one of the well-pleaded claims.*"

In this case, the bankruptcy court concluded that whether Matsco had perfected its security interest was dispositive of its entitlement to relief, and that question turned on whether Patent Act § 261 preempted state law. (App. 47.) The Ninth Circuit said "[w]e acknowledge that the issue in this case 'is a pure question of statutory construction for the courts to decide.' " (App. 32.) As such, the Federal Circuit had exclusive jurisdiction to hear the Trustee's appeal. *Animal Legal Defense Fund v. Quigg*, 900 F.2d 195, 196 (9th Cir. 1990) *aff'd* 932 F.2d 920 (Fed. Cir. 1991) (suit under Administrative Procedures Act within exclusive jurisdiction of Federal Circuit since "[t]here are no alternative theories on which Plaintiffs can base their claim that do not depend on a construction of patent law"); *Kennedy v. Wright*, 851 F.2d 963, 968 (7th Cir. 1988) (interpretation of patent recording system raises federal question).

Nonetheless, the Ninth Circuit declined to transfer to the Federal Circuit without giving a reason. That does not eliminate the jurisdictional enquiry.

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Under 28 U.S.C. § 1334(b), the district court has original jurisdiction over "proceedings" in bankruptcy. The district court may refer the question of lien priority to the bankruptcy court. 28 U.S.C. § 157(b)(2)(K). For purposes of the well-pleaded complaint rule, this "proceeding" would apparently be the "complaint." *See In re Cambridge Biotech Corp.*, 186 F.3d 1356, 1369-70 (Fed. Cir. 1999); *In re Progress Lektro Shave Corp.*, 35 F.Supp. 915 (D. Conn. 1940). By filing the involuntary chapter 7 petition, the petitioning creditors invoked the power of the district court to create a bankruptcy estate vested with patent title, 11 U.S.C. § 541(a), obtain an automatic stay, 11 U.S.C. § 362(a)(4), and seek a determination of patent ownership. At that point, any attempt by a creditor to foreclose a security interest, take patent ownership and authorize others to make, use or sell the patented invention prior to such a determination would allow suit for infringement. *In re Cambridge Biotech Corp., supra*, 186 F.3d at 1369-70. Although determining ownership under a contract may be necessary to show infringement, the case still arises under the patent laws. *Crown v. Nye Tool & Machine Works*, 261 U.S. 24, 40 (1923); *Kennedy v. Wright, supra*, 851 F.2d at 968.

Congress analogized seeking relief from an automatic stay to an injunction, with the difference that, in an automatic stay, the enjoined party must move. H.R. Rep. No. 595, 95th Cong., 1st Sess. 344 (1977). The Bankruptcy Code, 11 U.S.C. § 362(g), says the party seeking relief has the burden of proof on the issue of the debtor's equity, but the party opposing the motion has the burden on all other issues. The burden remains on the party opposing the motion, since this party, as in injunction practice,

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seeks affirmative relief in the form of continuance of the stay. *Id.* The party seeking relief and with the burden of proof should be the plaintiff. Moreover, the Trustee's only way to prevail was to invoke the Patent Act as the basis for relief. A party who invokes patent law as the basis for relief under a compulsory counter-claim is a plaintiff for purposes of the well-pleaded complaint rule. *Aerojet-General Corp. v. Machine Tools Works*, 895 F.2d 736 (Fed. Cir. 1990). Since the Trustee was seeking affirmative relief by continuation of the automatic stay, and the Trustee's entitlement to such relief depended on invoking the Patent Act, the Trustee should be deemed a "plaintiff" for purposes of the well-pleaded complaint rule.

The right to relief of either party in this case turns solely on one pure question of law: does Patent Act § 261 establish the exclusive method for perfecting a security interest in a patent against a bankruptcy trustee? Matsco is not entitled to relief from the automatic stay under any other theory under state or federal law unless it can show that Patent Act § 261 does not establish such a method. The Trustee is not entitled to a continuation of the automatic stay under any other theory under state or federal law unless it can show that it does. Since the construction of patent law determines the right to relief of both parties, this case "arises under" the Patent Act and the Federal Circuit had exclusive jurisdiction to hear the Trustee's appeal.

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CONCLUSION

The decision below raises serious conflicts in the interpretation of the Patent Act, the Bankruptcy Code and the Judiciary Code. Review is merited.

Respectfully submitted.

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FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

IN RE: CYBERNETIC SERVICES, INC., d/b/a Silent Radio, Inc., *Debtor.*	
PETITIONING CREDITORS; BYRON Z. MOLDO, Chapter 7 Trustee of the Estate of Cybernetic Services, Inc., dba Silent Radio, Inc. ("Moldo"), *Appellants,* v. MATSCO, INC., *Appellee*	No. 99-56856 BAP No. CC-98-01690-PKRi
IN RE: CYBERNETIC SERVICES, INC., d/b/a Silent Radio, Inc., *Debtor.*	
BYRON Z. MOLDO, Chapter 7 Trustee, *Appellant,* v. MATSCO, INC., and MATSCO FINANCIAL CORPORATION, PETITIONING CREDITORS, *Appellees*	No. 99-56868 BAP No. CC-98-01690-PKRi OPINION

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Appeals from the Ninth Circuit
Bankruptcy Appellate Panel
Perris, Klein, and Riegle, Bankruptcy Judges, Presiding

Argued and Submitted
April 17, 2001 – Pasadena, California

Filed June 6, 2001

Before: Harry Pregerson, Ferdinand F. Fernandez, and Susan P. Graber, Circuit Judges.

Opinion by Judge Graber

COUNSEL

Lorin Brennan, Newport Beach, California; Damon G. Saltzburg, Saltzburg, Ray & Bergman, LLP, Los Angeles, California; and Paul M. Brent, Steinberg, Nutter & Brent, Santa Monica, California, for the appellants.

James A. Tiemstra, Miller, Starr & Regalia, Walnut Creek, California, for the appellees.

OPINION

GRABER, Circuit Judge:

As is often true in the field of intellectual property, we must apply an antiquated statute in a modern context. The question that we decide today is whether 35 U.S.C. § 261 of the Patent Act, or Article 9 of the Uniform Commercial Code (UCC), as adopted in California, requires the holder of a security interest in a patent to record that interest with the federal Patent and Trademark Office (PTO) in order to perfect the interest as

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against a subsequent lien creditor.[1] We answer "no"; neither the Patent Act nor Article 9 so requires. We therefore affirm the decision of the Bankruptcy Appellate Panel (BAP).

FACTUAL AND PROCEDURAL BACKGROUND

The parties stipulated to the relevant facts: Matsco, Inc., and Matsco Financial Corporation (Petitioners) have a security interest in a patent developed by Cybernetic Services, Inc. (Debtor). The patent is for a data recorder that is designed to capture data from a video signal regardless of the horizontal line in which the data is located. Petitioners' security interest in the patent was "properly prepared, executed by the Debtor and timely filed with the Secretary of State of the State of California," in accordance with the California Commercial Code. Petitioners did not record their interest with the PTO.

After Petitioners had recorded their security interest with the State of California, certain creditors filed an involuntary Chapter 7 petition against Debtor, and an

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[1] A "security interest" is an interest in personal property that secures a payment or the performance of an obligation. Cal. Com. Code § 1201(36)(a). We refer to a person who holds a security interest in property but who does not hold title to that property as a "lien creditor." " 'Perfection' and 'priority' . . . are separable but intertwined concepts. When a lender has properly perfected a security interest in property by filing its interest in the appropriate office, the lender may obtain priority – the ability to assert that its interest ranks before those of other parties with claims to that property." Alice Haemmerli, *Insecurity Interests: Where Intellectual Property and Commercial Law Collide*, 96 Colum. L. Rev. 1645, 1657 (1996).

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order of relief was granted. The primary asset of Debtor's estate is the patent. Petitioners then filed a motion for relief from the automatic stay so that they could foreclose on their interest in the patent. The bankruptcy Trustee opposed the motion, arguing that Petitioners had failed to perfect their interest because they did not record it with the PTO.

The bankruptcy court ruled that Petitioners had properly perfected their security interest in the patent by following the provisions of Article 9. Furthermore, the court reasoned, because Petitioners had perfected their security interest before the filing of the bankruptcy petition, Petitioners had priority over the Trustee's claim in the patent and deserved relief from the stay. Accordingly, the bankruptcy court granted Petitioners' motion. The BAP affirmed.

Petitioners then filed this timely appeal.

STANDARD OF REVIEW

We review for abuse of discretion orders granting relief from an automatic stay. *Benedor Corp. v. Conejo Enters., Inc. (In re Conejo Enters., Inc.)*, 96 F.3d 346, 351 (9th Cir. 1996). We review de novo any conclusions of law. *Vanderpark Props., Inc. v. Buchbinder (In re Windmill Farms, Inc.)*, 841 F.2d 1467, 1469 (9th Cir. 1988).

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DISCUSSION

Article 9 of the UCC, as adopted in California, governs the method for perfecting a security interest in personal property.[2] Article 9 applies to "general intangibles," a term that includes intellectual property. Cal. Com. Code § 9106. The parties do not dispute that Petitioners complied with Article 9's general filing requirements and, in the case of most types of property, would have priority over a subsequent lien creditor. The narrower question in this case is whether Petitioners' actions were sufficient to perfect their interest when the "general intangible" to which the lien attached is a patent. The parties also do not dispute that, *if* Petitioners were required to file notice of their security interest in the patent with the PTO, then the Trustee, as a hypothetical lien creditor under 11 U.S.C. § 544(a)(1), has a superior right to the patent.

The Trustee makes two arguments. First, the Trustee contends that the Patent Act preempts Article 9's filing requirements. Second, the Trustee argues that Article 9 itself provides that a security interest in a patent can be perfected only by filing it with the PTO.[3] We discuss each argument in turn.

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[2] For convenience, we refer to California's statutes governing secured transactions as "Article 9" throughout this opinion, although it should be understood that we mean California law only.

[3] On appeal, the Trustee also argues that, under the Bankruptcy Act, 11 U.S.C. § 544(a)(2), he is not a hypothetical lien creditor but, rather, has the status of an "unsatisfied execution creditor." We need not explore the ramifications of that argument because it was not raised below and, accordingly,

A. *Preemption*

1. *The Analytical Framework*

"[T]he Supremacy Clause, U.S. Const., Art. IV, cl. 2, invalidates state laws that 'interfere with, or are contrary to,' federal law." *Hillsborough County, Fla. v. Automated Med. Labs., Inc.*, 471 U.S. 707, 712 (1985) (quoting *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1, 92 (1824)). Congress may preempt state law in several different ways. Congress may do so expressly (express preemption). *Id.* at 713. Even in the absence of express preemptive text, Congress' intent to preempt an entire field of state law may be inferred "where the scheme of federal regulation is sufficiently comprehensive to make reasonable the inference that Congress 'left no room' for supplementary state regulation" (field preemption). *Id.* (quoting *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947)). State law also is preempted "when compliance with both state and federal law is impossible," or if the operation of state law " 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress' " (conflict preemption). *G.S. Rasmussen & Assocs. v. Kalitta Flying Serv., Inc.*, 958 F.2d 896, 903-04 (9th Cir. 1992) (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974)). In all cases, "[c]ongressional intent to preempt

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has been waived. *See El Paso City v. Am. W. Airlines, Inc. (In re Am. W. Airlines, Inc.)*, 217 F.3d 1161, 1165 (9th Cir. 2000) (noting, in an appeal from a BAP decision, that, "[a]bsent exceptional circumstances, we generally will not consider arguments raised for the first time on appeal, although we have discretion to do so"). The Trustee has not argued that "exceptional circumstances" exist in this case, nor does the record disclose any.

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state law must be clear and manifest." *Indus. Truck Ass'n v. Henry*, 125 F.3d 1305, 1309 (9th Cir. 1997).

The Patent Act does not contain preemptive text, so express preemption is not an issue here. Concerning field and conflict preemption, the Supreme Court has adopted a "pragmatic" approach to deciding whether the Patent Act preempts a particular state law. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156 (1989). Congress, in the Patent Act, "has balanced innovation incentives against promoting free competition, and state laws upsetting that balance are preempted." *G.S. Rasmussen*, 958 F.2d at 904. "[S]tate regulation of intellectual property must yield *to the extent that it clashes* with the balance struck by Congress" in the Patent Act. *Bonito Boats*, 489 U.S. at 152 (emphasis added).

Using this form of analysis, the Supreme Court has held, on numerous occasions, that the Patent Act preempts a state law that grants patent-like protection to a product. *See, e.g., id.; Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964). Those cases do not control, however, because we are confronted not with a state law that grants patent-like protection to a product but, rather, with a state commercial law that provides a method for perfecting a security interest in a federally protected patent.

That distinction is key because the Supreme Court has instructed clearly that the Patent Act does not preempt every state commercial law that touches on intellectual property. For example, in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979), the Supreme Court

observed that commercial agreements "traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law."

The Court also has held that the Patent Act does not preempt a state's trade secret law even though the practical effect of the state law is to prohibit the public dissemination of information that, under the Patent Act, is not eligible for protection. *Kewanee Oil*, 416 U.S. at 474. In *Kewanee*, the Court examined the purposes of the Patent Act and the state trade secret law at issue and concluded that the state law did not stand " 'as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.' " *Id.* at 479 (quoting *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941)). The Court observed that the state law also encouraged invention, but did so by protecting a subject matter that was beyond the Patent Act's horizon; therefore, "the two systems are not and never would be in conflict." *Id.* at 484.

It is within this framework that we evaluate the Trustee's claim. The Trustee argues that the recording provision found in 35 U.S.C. § 261 requires that the holder of a security interest in a patent record that interest with the PTO in order to perfect as to a subsequent lien creditor. Section 261 provides:

> Ownership; assignment
>
> Subject to the provisions of this title, patents shall have the attributes of personal property.

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> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.
>
> A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.
>
> *An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office* within three months from its date or prior to the date of such subsequent purchase or mortgage.

(Emphasis added.)

If the Trustee's reading of the relevant portion of § 261 is correct, then to the extent that Article 9 allows a different method of perfection, it would be preempted

under either a "field" or "conflict" preemption theory.[4] That is because recording systems increase a patent's marketability and thus play an integral role in the incentive scheme created by Congress. Recording systems provide notice and certainty to present and future parties to a transaction; they work "by virtue of the fact that interested parties have a specific place to look in order to discover with certainty whether a particular interest has been transferred." *Nat'l Peregrine, Inc. v. Capitol Fed. Savs. & Loan Ass'n (In re Peregrine Entm't, Ltd.)*, 116 B.R. 194, 200 (C.D. Cal. 1990); *see also Littlefield v. Perry*, 88 U.S. 205, 221 (1874) (noting that the Patent Act's recording system "is intended for the benefit of the public" and that "[*b*]*ona fide* purchasers look to it for their protection"). If, as the Trustee argues, the Patent Act expressly delineates the place where a party must go to acquire notice and certainty about liens on patents, then a state law that requires the public to look elsewhere unquestionably would undercut the value of the Patent Act's recording scheme. If, on the other hand, § 261 does not cover liens on patents, then Article 9's filing requirements do not conflict with any policies inherent in the Patent Act's recording scheme.

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[4] Although the categories "field" and "conflict" preemption provide a useful analytic framework, "they are not 'rigidly distinct.' Field preemption, for instance, 'may be understood as a species of conflict pre-emption: A state law that falls within a pre-empted field conflicts with Congress' intent (either express or plainly implied) to exclude state regulation [ ].' " *Indus. Truck Ass'n v. Henry*, 125 F.3d 1305, 1309 (9th Cir. 1997) (quoting *English v. Gen. Elec. Co.*, 496 U.S. 72, 79 n.5 (1990)).

Article 9 itself recognizes the existence of preemption principles. California Commercial Code § 9104(a) expressly subordinates Article 9's requirements to those of federal law. That section provides that Article 9 does not apply to any "security interest subject to any statute of the United States to the extent that such statute governs the rights of parties to and third parties affected by transactions in particular types of property." Section 9104(a) may be broader than federal preemption doctrine under the Patent Act. The text of § 9104(a) implies that Article 9's requirements are inapplicable to the extent that a federal law *governs* the rights of a party to a secured transaction, with or without a *conflict* between the state law and the scheme created by Congress in the Patent Act. *Cf. Levitin v. PaineWebber, Inc.*, 159 F.3d 698, 704 (2d Cir. 1998) (speculating that § 104(a) of Article 9 "calls for analysis more sweeping than traditional preemption analysis").

This possible difference in scope does not affect the result in the present case, however. As noted, the Trustee argues that § 261 *required* Petitioners to record their interest with the PTO. If that is true, then the Trustee has priority to the patent's proceeds, either because there is a clear conflict between the state and federal schemes and the state scheme is preempted, or because the Patent Act "governs the rights of parties" to the transaction and § 9104(a) operates to nullify Article 9's filing requirements. We turn to that issue now.

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2. *The Patent Act Requires Parties to Record with the PTO Only Ownership Interest in Patents.*

As noted, the Patent Act's recording provision provides that an "assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the [PTO]." 35 U.S.C. § 261. In order to determine whether Congress intended for parties to record with the PTO the type of interest that is at issue in this case, we must give the words of the statute the meaning that they had in 1870, the year in which the current version of § 261 was enacted.[5] *See Perrin v. United States*, 444 U.S. 37, 42 (1979) (giving the word "bribery," as used in the Travel Act, the meaning that it had in 1961, when the Travel Act was enacted).

Our task is not an easy one because security interests, and the words used to describe them, have changed significantly since the 19th Century. *See generally* 4 James

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[5] The text of the relevant part of § 261 is derived from the Patent Act of 1870, ch. 230, § 36, 16 Stat. 203. An earlier version, July 4, 1836 (5 Stat. 121), provided as follows:

> "Every patent shall be assignable at law, either as to the whole interest or any undivided part thereof, by any instrument in writing, which assignment, and also every grant and conveyance of the exclusive right under any patent, to make and use, and to grant to others to make and use, the thing patented within and throughout any specified part or portion of the United States, shall be recorded in the Patent Office within three months from the execution thereof."

(As quoted in *Oliver v. Rumford Chem. Works*, 109 U.S. 75, 81-82 (1883).)

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J. White & Robert S. Summers, Uniform Commercial Code § 30-1, at 2 (4th ed. 1995) (noting that, before the advent of Article 9, "the lawyer had to work with a variety of security devices, each governed by its own law"). For example, before Article 9, a party could secure property using a pledge, an assignment, a chattel mortgage, a chattel trust, a trust deed, a factor's lien, or a conditional sale. Grant Gilmore, Security Interests in Personal Property § 10.1, at 296 (1965). Each type of device carried with it elaborate rules that controlled its use, and each conferred different rights and liabilities upon the contracting parties. *See id.* § 11.1, at 333 (noting that a "considerable amount of pre-Code case law was devoted to the invalidation of security transactions on the ground that one of the specialized devices had been used outside its 'proper' field"). Article 9, which was first enacted in 1962, brought the "long history of the proliferation of independent security devices . . . to an end." *Id.* § 10.1, at 296. It did so in part by introducing a body of law that would govern a "single, 'unitary' security device": the Article 9 security interest. 4 White & Summers § 30-1, at 2.

With that history in mind, we must determine whether Congress intended to include the kind of transaction at issue in this case within the scope of 35 U.S.C. § 261. The first phrase in § 261's recording provision – "assignment, grant or conveyance" – refers to different types of transactions. The neighboring clause – "shall be void as against any subsequent purchaser or mortgagee" – refers to the status of the party that receives an interest in the patent. Therefore, for the Trustee to prevail in this case, (1) Petitioners' transaction with Debtor must have

been the type of "assignment, grant or conveyance" referred to in § 261, and (2) the Trustee, who has the status of a hypothetical lien creditor, must be a "subsequent purchaser or mortgagee." We hold that neither condition is met.[6]

As we will discuss next, our conclusion finds support in the text of § 261, keeping in view the historical definitions of the terms used in the recording provision; the context, structure, and policy behind § 261; Supreme Court precedent; and PTO regulations. We will begin by analyzing the statute's text and context, as interpreted by the Supreme Court. For the sake of clarity, we will discuss

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[6] Although no circuit court has yet resolved the issue that we face, there exists quite a bit of academic debate on the subject of whether the Patent Act preempts Article 9. Professor Gilmore argues that, although the Patent Act "contains no express authorization of patent mortgages comparable to the copyright provision . . . [,] the statute confers upon patents 'the attributes of personal property' and the recording provision makes an unrecorded assignment void 'against any subsequent . . . mortgagee,' [and] there can be no doubt that security transfers of patents are recognized." Grant Gilmore, Security Interests in Personal Property § 10.1, at 417 (1965) (quoting 35 U.S.C. § 261).

There also is academic support for the opposite view, which (for the reasons explained in the text of this opinion) we embrace. *See* William C. Hillman, *Documenting Secured Transactions*, 2-19 to 2-20 (May 1998 rev.) (concluding that the Patent Act does not preempt Article 9); 4 White & Summers § 30-12, at 86 (noting that the text of "federal statutes appears to distinguish between security interests and outright assignments, and among lien creditors, mortgagees, bona fide purchasers and others"); Haemmerli, *supra* note 1, at 1696-1700 (arguing that security interests are not within the scope of 35 U.S.C. § 261).

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the two relevant phrases in the recording provision of § 261 separately.

a. *The Phrase "Assignment, Grant or Conveyance" Concerns Transfers of Ownership Interests Only.*

The historical meanings of the terms "assignment, grant or conveyance" all involved the transfer of an ownership interest. A patent "assignment" referred to a transaction that transferred specific rights in the patent, all involving the patent's title. *E.g., Oliver v. Rumford Chem. Works*, 109 U.S. 75, 82-83 (1883) (noting that an "assignment" involves a transfer of a patent's title); *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891) (explaining that an "assignment" vests in the assignee "title in so much of the patent itself"); 2 William C. Robinson, The Law of Patents § 762, at 517 (1890) ("An assignment is a transfer of the entire interest in a patented invention, or of an undivided portion of such entire interest, as to every section of the United States."); 48 C.J. *Patents* § 390, at 253 (1929) ("Generally an assignment of a patent vests in the assignee a title to so much of the patent itself, and transfers to the assignee an exclusive right to do everything under the patent which the patentee himself could do." (footnote omitted)).

A "grant," historically, also referred to a transfer of an ownership interest in a patent, but only as to a specific geographic area. *See Moore v. Marsh*, 7 Wall. 515, 521 (1868) (explaining that grants "must convey the exclusive right, under the patent, to make and use, and vend to others to be used, the thing patented, within and throughout some specified district or portion of the

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United States, and such right must be exclusive of the patentee, as well as of all others except the grantee"); *Houdry Process Corp. v. Universal Oil Prods. Co.*, 87 F.Supp. 547, 552 (D. Del. 1949) ("A grant differs from an assignment merely as to the geographical area covered by the agreement."); 2 Robinson § 763, at 518 (noting that the "essential difference" between an assignment and a grant is "the territorial area to which they relate").

Although older cases defining the term "conveyance" in the context of intangible property are sparse, and its historic meaning tended to vary, the common contemporaneous definition was "to transfer the legal title . . . from the present owner to another." *Abendroth v. Town of Greenwich*, 29 Conn. 356 (1860); *see also, e.g., Frame v. Bivens*, 189 F. 785, 789 (C.C.E.D. Okla. 1909) ("A conveyance is the transfer of the title of land from one person or class of persons to another."); I Bouvier's Law Dictionary 361 (14th ed. 1874) (defining "conveyance" as the "transfer of the title of land from one person or class of persons to another"); I Burrill's Law Dictionary 375 (2d ed. 1871) (defining "conveyance" as an "instrument in writing, by which property or the title to property is transferred from one person to another"); Black's Law Dictionary 431 (3d ed. 1933) ("In the strict legal sense, a transfer of legal title to land.").

That Congress intended to incorporate the common, contemporaneous meanings of the words "assignment," "grant," and "conveyance" into the Patent Act's recording provision can be seen when § 261 is examined in its entirety. *See FDA v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 133 (2000) (noting that it is a " 'fundamental canon of statutory construction that the words of a statute

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must be read in their context and with a view to their place in the overall statutory scheme' " (quoting *Davis v. Mich. Dep't of Treasury*, 489 U.S. 803, 809 (1989))). The first clue is the provision's title: "Ownership; assignment." *See United States v. Kaluna*, 192 F.3d 1188, 1195 (9th Cir. 1999) (instructing that a statute's title is a tool for interpreting the statute's meaning). By using the unambiguous words "ownership; assignment," Congress must have intended to introduce the subject that was to follow: the ownership of patents and the assignment thereof.

Continuing through § 261, the second paragraph states that patents shall be assignable by an instrument in writing. That paragraph goes on to provide that the patentee or the patentee's assigns "may in like manner *grant and convey an exclusive right* under his application for patent . . . to the whole or any specified part of the United States." (Emphasis added.) The types of transactions referred to in § 261's second paragraph – (1) the assignment of a patent, and (2) the grant or conveyance of an exclusive right in a patent in the whole or part of the United States – track the historical definitions of assignment, grant, and conveyance that we just discussed – transactions that all involve the transfer of an ownership interest in a patent.

Moreover, we presume that words used more than once in the same statute have the same meaning throughout. *Boise Cascade Corp. v. EPA*, 942 F.2d 1427, 1432 (9th Cir. 1991). Here, the second paragraph of § 261 uses the words "grant and convey" to signify the transfer of an "exclusive right [in a patent] . . . to the whole or any specified part of the United States." We presume, then,

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that when Congress used the words "grant or conveyance" two paragraphs later in the same statute, Congress still intended to refer to ownership interests only.

Supreme Court precedent supports our view that the terms "assignment, grant or conveyance" refer to ownership interests only. In *Waterman*, the Supreme Court analyzed the nature of a patent "assignment" and "mortgage." The plaintiff in *Waterman* assigned to his wife a patent for an improvement in fountain pens. The plaintiff's wife then granted back to the plaintiff a license to use the patent. That license was never recorded. The wife then assigned the patent to a third party as collateral for a debt; the document concerning this arrangement was filed with the PTO. Finally, the wife assigned the patent back to the plaintiff. The question for the Court was whether the plaintiff had standing to bring an action for infringement of the patent. The Court held that only the third party had standing. 138 U.S. at 261.

In resolving the matter, the Court noted that a patent's owner may convey, assign, or grant one of three interests:

> [1] the whole patent, comprising the exclusive right to make, use and vend the invention throughout the United States; or [2] an undivided part or share of that exclusive right; or [3] the exclusive right under the patent within and throughout a specified part of the United States. A transfer of either of these three kinds of interests is an *assignment*, properly speaking, and vests in the assignee a *title* in so much of the patent itself, with a right to sue infringers. . . . Any assignment or transfer, short of one of these, is a *mere license*, giving the

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> licensee no title in the patent, and no right to sue at law in his own name for an infringement.

Id. at 255 (emphasis added) (citation omitted). Whether a particular conveyance qualifies as an assignment or a license "does not depend upon the name by which it calls itself, but upon the legal effect of its provisions," *id.* at 256; that is, whether title is passed depends on the rights that were transferred by the contracting parties. Only the holder of an ownership interest in the patent had standing to sue.

Waterman contains no explicit holding that 35 U.S.C. § 261 applies only to a secured transaction that effects a transfer of ownership, but it does imply as much. The Court in *Waterman* expressly differentiated between three kinds of transfers of ownership interests – all of which it labeled as versions of "assignments" – and everything else, which it referred to as "mere licenses." The Court did not discuss "grants" or "conveyances" separately, but (1) as a matter of logic, they must fall into one of the two overarching and mutually exclusive categories that the Court created: assignments (ownership interests) or licenses (less than ownership interests); and (2) the kinds of transfers of ownership interests discussed by the Court (and labeled "assignments") correspond neatly to the historical definitions of the transactions delineated in the statute. *See* Hillman at 2-19 to 2-20 (observing that the Patent Act "distinguishes 'assignments' of patents (of which 'grants' and 'conveyances' are specific types) from all other transfers (which are called 'licenses')"). It is clear, then, that the transactions that the Court referred to

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as effecting a transfer of ownership are the same transactions that Congress referred to as an "assignment, grant or conveyance."

The Court's decision in *Littlefield* compels a similar conclusion. In *Littlefield*, a patent holder (the defendant) "granted" rights in a patent to a third party (the plaintiff), but did so through two separate contracts. The Court described the first contract as an "absolute conveyance" of the patent from the defendant to the plaintiff. In the second contract, the parties reserved some of the rights in the patent to the defendant. 88 U.S. at 219-20. The plaintiff recorded the first agreement but not the second, and eventually he sued the defendant for infringement. The defendant argued that the plaintiff could not sue him for infringement because the plaintiff held only a license. The Supreme Court disagreed.

In evaluating the claim, the Court examined the two agreements at issue. The Court noted that, in determining which party had an assignment and which had a license, it was an "important fact . . . that only one of the parts is recorded. . . . The record[ing] of the [first contract] alone . . . furnishes the strongest evidence of the intention of the parties to give effect to the two instruments as an assignment" to the plaintiff. *Id.* at 221. Therefore, under the "absolute conveyance," the plaintiff held an assignment, while the unrecorded agreement gave the defendant a "mere license."

In summary, the statute's text, context, and structure, when read in the light of Supreme Court precedent, compel the conclusion that a security interest in a patent that does not involve a transfer of the rights of ownership is a

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"mere license" and is not an "assignment, grant or conveyance" within the meaning of 35 U.S.C. § 261. And because § 261 provides that only an "assignment, grant or conveyance shall be void" as against subsequent purchasers and mortgagees, only transfers of ownership interests need to be recorded with the PTO. *See Moraine Prods. v. ICI Am., Inc.*, 538 F.2d 134, 143 (7th Cir. 1976) (" 'Patent licenses are not governed by the Patent Act, Section 261 being inapplicable to licensees.' " (quoting P. Rosenberg, Patent Law Fundamentals 264 (1975))); *Keystone Type Foundry v. Fastpress Co.*, 272 F. 242, 245 (2d Cir. 1921) ("[I]t had long passed into the textbooks that . . . an assignee acquired title subject to prior licenses of which the assignee must inform himself as best he can, and at his own risk."); *Jones v. Berger*, 58 F. 1006, 1007 (C.C.D. Md. 1893) ("There would seem to be no doubt that a license to use a patent not exclusive of others need not be recorded. . . . A subsequent assignee takes title to the patent subject to such licenses, of which he must inform himself as best he can at his own risk." (citations omitted)); *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F.Supp. 931, 939 (D.N.J. 1983) (holding that "there is no obligation to record a license" with the PTO); 2 Robinson § 817, at 602 ("A license is not such a conveyance of an interest in the patented invention as to affect its ownership, and hence is not required to be recorded.").

In the present case, the parties do not dispute that the transaction that gave Petitioners their interest in the patent did not involve a transfer of an ownership interest in the patent. Petitioners held a "mere license," which did not have to be recorded with the PTO.

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b. *The Phrase "Subsequent Purchaser or Mortgagee" does not Include Subsequent Lien Creditors.*

The Trustee's argument fails not only because a security interest that does not transfer ownership is not an "assignment, grant or conveyance," but also because he is not a subsequent "purchaser or mortgagee." Congress intended for parties to record their ownership interests in a patent so as to provide constructive notice only to subsequent holders of an ownership interest. Again, we derive our conclusion from the historical definitions of the words, from the context and structure of § 261, and from Supreme Court precedent.

The historical meaning of "purchaser or mortgagee" proves that Congress intended for the recording provision to give constructive notice only to subsequent holders of an ownership interest. For the sake of convenience, we begin with the definition of "mortgagee."

Historically, a "mortgagee" was someone who obtained title to property used to secure a debt. *See* James Schouler, Personal Property § 416, at 622 (5th ed. 1918) (noting that "[m]ortgages of chattels, then, are to be distinguished at common law from liens and pledges in this sort of out-and-out transfer of the title conditionally which is carried by the original transaction"). A "mortgage" must be differentiated from a "pledge," a term that is absent from the Patent Act. Professor Gilmore, in his treatise, Security Interests in Personal Property § 1.1, at 8, notes that the historical distinction between a pledge and a mortgage was that "the mortgagee got title or an estate whereas the pledgee got merely possession with a right to

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foreclose on default." Similarly, Judge Learned Hand wrote, in 1922, that it "is everywhere agreed that the significant distinction between a pledge and a mortgage is that in the first the creditor gets no title, . . . while in the second he does." *Ex parte Crombie & La Mothe, Inc. (In re German Publ'n Soc'y)*, 289 F. 509, 509 (S.D.N.Y. 1922); *see also* Leonard A. Jones, A Treatise on the Law of Collateral Securities and Pledges § 2, at 4 (Edward M. White rev., 3d ed. 1912) (defining a "pledge" as "something more than a mere lien and something less than a mortgage"), *cited in* Black's Law Dictionary 1175 (7th ed. 1999).

That the Patent Act refers to securing a patent through a "mortgage" but not through a "pledge" is significant, for both were common methods of using a patent as collateral. *See* Schouler § 395, at 589 (noting that patent rights "are constantly interchanged in our business community for the purpose of pledge"); *cf.* Gilmore § 1.2, at 9-10 ("If it ever was true that only tangible chattels could be pledged, it is well over a century since that proposition had any vitality."). Generally, the inclusion of certain terms in a statute implies the exclusion of others. *United States v. Kakatin*, 214 F.3d 1049, 1051 (9th Cir. 2000). It seems then, that by using the term "mortgagee," but not "lien" or "pledge," Congress intended in 1870 for the Patent Act's recording provision to protect only those who obtained title to a patent.

The term "purchaser" does not detract from this conclusion. Section 261 instructs that an unrecorded "assignment, grant or conveyance" shall be void as against a subsequent "purchaser . . . for a valuable consideration, without notice." The historical definition of a "purchaser for value and without notice" was a "*bona fide* purchaser.

A purchaser . . . who takes a conveyance purporting to pass the entire title, legal and equitable," who pays value and does not have notice of the rights of others to the property. Bouvier's Law Dictionary 1005 (Baldwin's Century ed. 1926). The Supreme Court seems to have accepted this definition as well. *See Littlefield*, 88 U.S. at 221 (noting that "[*b*]*ona fide* purchasers look to [the Patent Act's recording provision] for their protection").

Congress, by stating that certain transactions shall be void as against a subsequent "purchaser or mortgagee" intended for the words to be read together: A "purchaser" is one who buys an ownership interest in the patent, while a "mortgagee" is one who obtains an ownership interest in a patent as collateral for a debt.

Our previous comments about the context and structure of § 261 support our conclusion that Congress intended to protect only subsequent holders of an ownership interest. As noted, the title of § 261 is "Ownership; assignment," which suggests that the recording provision is concerned only with ownership interests.

Similarly, the second paragraph delineates the types of transactions that § 261 covers – (1) the assignment of a patent, and (2) the grant or conveyance of an exclusive right in the patent to the whole or any specified part of the United States – each involving the transfer of an ownership interest in a patent. It follows that, when Congress referred to a "subsequent purchaser or mortgagee," it was simply describing the future recipients of those transactions. In one case the recipient bought the interest (purchaser), while in the other the recipient loaned money and received the interest as collateral

(mortgagee). In either case, an ownership interest was transferred.

Precedent confirms our reading of the statute. The Supreme Court has endorsed the view that Congress intended to provide constructive notice only to subsequent recipients of an ownership interest in a patent. In *Waterman*, the Court observed, as we do, that the Patent Act refers to a "mortgage" but not to a "pledge." The Court noted that, when a party has the status of a mortgagee,

> it is not merely the possession or a special property that passes; but, both at law and in equity, *the whole title is transferred to the mortgagee, as security for the debt*, subject only to be defeated by performance of the condition . . . and the right of possession, when there is no express stipulation to the contrary, goes with the right of property.

138 U.S. at 258 (emphasis added). Moreover, with title or possession of the property came certain rights in the mortgagee. *Id.* at 258-59. But a patent right "is incorporeal property, not susceptible of actual delivery or possession." *Id.* at 260. Therefore, when "it is provided by statute that a mortgage of personal property shall not be valid against third persons, unless the mortgage is recorded, *a recording of the mortgage is a substitute for, and . . . equivalent to, a delivery of possession, and makes the title and the possession of the mortgagee good against all the world.*" *Id.* at 260 (emphasis added).

The Court then observed that, once a mortgagee has recorded the transaction, that party is "entitled to grant licenses, to receive license fees and royalties, and to have

an account of profits or an award of damages against infringers." *Id.* Because the Court had already noted that only the holder of an ownership interest in a patent could sue for damages against infringers, it is clear that the Court read the term "mortgagee" to refer to a party who held an ownership interest in the patent.

In summary, the historical definitions of the terms "purchaser or mortgagee," taken in context and read in the light of Supreme Court precedent, establish that Congress was concerned only with providing constructive notice to subsequent parties who take an ownership interest in the patent in question. *See In re Transp. Design & Tech., Inc.*, 48 B.R. 635, 639-40 (S.D. Cal. 1985) (interpreting *Waterman* as holding that the Patent Act is concerned only with transactions that transfer title); *City Bank & Trust Co. v. Otto Fabric, Inc.*, 83 B.R. 780, 782-83 (D. Kan. 1988) (same).

The Trustee is not a subsequent "mortgagee," as that term is used in 35 U.S.C. § 261, because the holder of a patent mortgage holds title to the patent itself. *Waterman*, 138 U.S. at 258. Instead, the Trustee is a hypothetical lien creditor.[7] The Patent Act does not require parties to record documents in order to provide constructive notice to subsequent lien creditors who do not hold title to the patent.

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[7] The Trustee did not argue below that he is a subsequent "purchaser," so we need not consider that question.

3. *Public Policies that Underlie Recording Provisions Cannot Override the Text of the Patent Act.*

The Trustee argues that requiring lien creditors to record their interests with the PTO is in line with the general policy behind recording statutes. It may be, as the Trustee argues, that a national system of filing security interests is more efficient and effective than a state-by-state system. However, there is no statutory hook upon which to hang the Trustee's policy arguments. Moreover, we are not concerned with the policy behind recording statutes generally but, rather, with the policy behind 35 U.S.C. § 261 specifically.

Title 35 U.S.C. § 261, as we have demonstrated and as its label suggests, is concerned with patent ownership. In that provision Congress gave patent holders the right to transfer their ownership interests, but only in specific ways. The congressional policy behind that decision was to protect the patent holder and the public for, as the Supreme Court put it,

> it was obviously not the intention of the legislature to permit several monopolies to be made out of one, and divided among different persons within the same limits. Such a division would inevitably lead to fraudulent impositions upon persons who desired to purchase the use of the improvement, and would subject a party who, under a mistake as to his rights, used the invention without authority, to be harassed by a multiplicity of suits instead of one, and to successive recoveries of damages by different persons holding different portions of the patent right in the same place.

Gayler v. Wilder, 51 U.S. (10 How.) 501, 519-20 (1850); *see also* Hillman at 2-19 (noting that patent law "adheres to strict concepts of title, in order to protect the ownership of new inventions"). The recording provision, if read to include ownership interests only, is perfectly aligned with that policy. By contrast, a security interest in a patent does not make "several monopolies . . . out of one, . . . divided among different persons within the same limits." *Gayler*, 51 U.S. at 519.

We must interpret § 261 in the light of the purposes that Congress was seeking to serve. *United States v. Smith*, 683 F.2d 1236, 1240 (9th Cir. 1982). Congress simply was not concerned with nonownership interests in patents, and this limitation was well understood at the time. As explained in a venerable treatise on the law of patents:

> A license is not such a conveyance of an interest in the patented invention as to affect its ownership, and hence is not required to be recorded. . . . The value of the patented invention to the vendee may be impaired by such outstanding licenses, but of this he must inform himself at his own risk as best he may. The record of a license, not being legally required, is not constructive notice to any person for any purpose.

2 Robinson § 817, at 602-03 (footnotes omitted).

The Patent Act was written long before the advent of the "unitary" Article 9 security interest. But we must interpret 35 U.S.C. § 261 as Congress wrote it. The Constitution entrusts to Congress, not to the courts, the role of ensuring that statutes keep up with changes in financing practices. It is notable that Congress has revised the

Patent Act numerous times since its enactment, most recently in 1999, *see* Pub. L. 106-113, but it has not updated the Act's recording provision. We decline the Trustee's invitation to do so in Congress' place.

4. *Cases Interpreting the Copyright Act do not Control.*

The Trustee's final argument is that this court should follow *Peregrine*, in which a bankruptcy court held that the Copyright Act preempts state methods of perfecting security interests in copyrights. The court in *Peregrine* observed that the "federal copyright laws ensure predictability and certainty of copyright ownership, promote national uniformity and avoid the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various States." 116 B.R. at 199 (internal quotation marks omitted). The court reasoned that allowing state methods to stand would conflict with those goals. *Id. But see* 4 White & Summers § 30-12, at 86 (referring to *Peregrine* as "misguided").

Of course, *Peregrine* is not binding on this court although, in the present case, we have no occasion to pass on its correctness as an interpretation of the Copyright Act. We note, however, that the Copyright Act, by its terms, governs security interests. The Copyright Act governs any "transfer" of ownership, which is defined by statute to include any "hypothecation." 17 U.S.C. §§ 101, 201(d)(1). A "hypothecation" is the "pledging of something as security without delivery of title or possession."

Black's Law Dictionary 747 (7th ed. 1999); *see also* Douglas J. Whaley, Problems and Materials on Secured Transactions 10 n.3 (4th ed. 1997) (noting that a "pledge is sometimes called a hypothecation").

By contrast, the Patent Act does not refer to a "hypothecation" and, as we have demonstrated, does not refer to security interests at all. The fact that one federal intellectual property statute with a recording provision expressly refers to security interests (the Copyright Act), while another does not (the Patent Act), is more evidence that security interests are *outside* the scope of 35 U.S.C. § 261. *See S. Cal. Bank v. Zimmerman (In re Hilde)*, 120 F.3d 950, 955 (9th Cir. 1997) (noting that, when " 'a statute omits a specific matter from its coverage, the inclusion of such a matter in another statute on a related subject demonstrates an intent to omit the matter from the coverage of the statute in which it is not mentioned' ") (quoting *Cal. Coastal Comm'n v. Quanta Inv. Corp.*, 113 Cal. App. 3d 579, 599 (1980)).

5. *PTO Regulations Require Only the Recording of Documents that Transfer Ownership in a Patent.*

It is worthy of mention that the applicable PTO regulations parallel our interpretation of 35 U.S.C. § 261. Title 37 C.F.R. § 3.11(a) provides that "assignments" must be recorded in the PTO. That regulation also states that "[o]ther documents *affecting title* to applications, patents, or registrations, will be recorded at the discretion of the Commissioner" of Patents and Trademarks. (Emphasis added.) Section 313 of the Manual of Patent Examining

Procedure (7th ed. 1998) explains that "[o]ther documents" that may be filed include "agreements which convey a security interest. Such documents are recorded in the public interest in order to give third parties notification of equitable interests. . . ."

Title 37 C.F.R. § 3.11 is illuminating because it shows that the PTO does not consider security interests to be "assignments, grants or conveyances." Under 35 U.S.C. § 261, certain conveyances – those that transfer an ownership interest – *must* be recorded to be effective as against a subsequent purchaser or mortgagee. If security interests *were* "assignments, grants or conveyances," then they would *have* to be filed to provide constructive notice to a subsequent purchaser or mortgagee, consistent with the Patent Act. As a matter of law and logic, the Commissioner would not have the "discretion" to reject federal filing.[8]

The PTO consistently has interpreted 35 U.S.C. § 261 in this way. An earlier version of the regulation, 37 C.F.R. § 1.331, which was originally enacted in 1959, allowed for the federal filing of "[o]ther instruments affecting title to a patent . . . *even though the recording thereof may not serve as constructive notice under 35 U.S.C. 261.*" 37 C.F.R. § 1.331(a) (emphasis added). Similarly, 37 C.F.R. § 7, also originally enacted in 1959, distinguished between "assignments" and "licenses," much as *Waterman* had. "Assignment[ ]" meant any "instrument which conveys to the Government only the title to a patent." 37 C.F.R.

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[8] No party challenges the validity of the PTO's regulations, and we express no opinion on that subject.

§ 7.2 (removed and reserved Oct. 10, 1997). "Licenses" were any instruments other than assignments. 37 C.F.R. § 7.3 (removed and reserved Oct. 10, 1997).

We acknowledge that the issue in this case "is a pure question of statutory construction for the courts to decide" and that the PTO's interpretation is not entitled to any particular deference. *INS v. Cardoza-Fonseca*, 480 U.S. 421, 446 (1987); *see also Chevron U.S.A., Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837, 843 n.9 (1984) (noting that the "judiciary is the final authority on issues of statutory construction"). Although the statute is ambiguous now, it seems not to have been in 1870. Moreover, we do not believe that 35 U.S.C. § 261 contains within it a delegation of authority, either explicit or implicit, that would enable the PTO to broaden or narrow the reach of the Patent Act's recording provision. *See id.* at 844 (noting that deference is appropriate only when Congress has delegated the authority to an administrative agency to fill a statutory gap or interpret an ambiguous provision.)

However, when we must interpret an archaic statute, the historic practice of the agency that was created to help implement that statute can shed light on its meaning. *Cf. Mesa Verde Constr. Co. v. N. Cal. Dist. Council of Laborers*, 861 F.2d 1124, 1130 n.5 (9th Cir. 1988) (stating that "[w]e have long recognized that considerable weight should be accorded to an executive department's construction of a statutory scheme it is entrusted to administer"). Under 37 C.F.R. § 3.11, Petitioners were not required to record with the PTO their security interest in order to perfect as to the Trustee.

6. *There is no Conflict Between the Patent Act and Article 9 in this Case.*

Because the Patent Act does not cover security interests or lien creditors at all, there is no conflict between 35 U.S.C. § 261 and Article 9. Petitioners did not have to file with the PTO to perfect their security interest as to a subsequent lien creditor.

B. *Article 9's Step-Back Provision*

The Trustee's second major argument is that Article 9 itself requires that a creditor file notice of a secured transaction with the PTO in order to perfect a security interest. California Commercial Code § 9302(3)(a) states that the filing of a financing statement pursuant to Article 9 "is not necessary or effective to perfect a security interest in property subject to . . . [a] statute . . . which provides for a national or international registration . . . or which specifies a place of filing different from that specified in" Article 9. If § 9302(3)(a) applies, then a party *must* utilize the federal registration system in order to perfect its security interest. Cal. Com. Code § 9302(4).[9]

The question, then, is whether the Patent Act is "[a] statute . . . which provides for a national or international

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[9] Section 9302(3)(a) concerns only the "where to file" question; any issues left unresolved by the federal statute (e.g., priority), are resolved by looking to Article 9. *See* Cal. Com. Code § 9104(a) (instructing that Article 9 does not apply "to the extent" that federal statutes govern the rights of parties to a secured transaction).

registration . . . or which specifies a place of filing different from that specified in" Article 9. Cal. Com. Code § 9302(3)(a). The Patent Act is clearly a statute that provides for a national registration. But that begs the more focused question: a national registration *of what*? Courts have tended to use the context of the statute to amplify the bare text and to answer the focused question: a national registration *of security interests*. For example, in *Aerocon Engineering, Inc. v. Silicon Valley Bank (In re World Auxiliary Power Co.)*, 244 B.R. 149, 155 (N.D. Cal. 1999), the bankruptcy court observed that § 9302(3)(a), if read literally,

> would be absurd. It would provide that, whenever a particular type of collateral may be registered nationally, regardless of whether the federal statute specifies a place for filing a security interest different than that provided by the UCC, filing a UCC-1 financing statement would be neither necessary nor effective to perfect a security interest in the collateral.

Courts have thus read § 9302(3)(a) as providing that federal filing is necessary only when there is a statute that "provides for" a national registration *of security interests*. *See, e.g., Trimarchi v. Together Dev. Corp.*, 255 B.R. 606, 610 (D. Mass. 2000) (holding that § 9302(3)(a) did not require the federal filing of a trademark because the Lanham Act does not provide for a national recording system of security interests). We agree with that interpretation.

Under that more restrictive definition, it is clear that the Patent Act is outside the scope of § 9302(3)(a). As we

have explained, a transaction that grants a party a security interest in a patent but does *not* effect a transfer of title is *not* the type of "assignment, grant or conveyance" that is referred to in 35 U.S.C. § 261. The transaction in this case did not transfer an ownership interest. Therefore, § 9302(3)(a) did not require that Petitioners record their security interest with the PTO.

The Comments to Article 9 of the UCC support this view. Comment 8 states that § 9302(3)

> exempts from the filing provisions of this Article transactions as to which an adequate system of filing, state or federal, has been set up outside this Article and subsection (4) makes clear that when such a system exists perfection of a relevant security interest can be had only through compliance with that system.

The Comments instruct that "17 U.S.C. §§ 28, 30 (copyrights), 49 U.S.C. § 1403 (aircraft), [and] 49 U.S.C. § 20(c) (railroads)" are examples of the "type of federal statutes" referred to in § 9302(3). Each of the statutes listed in the Comments refers expressly to security interests. *See* 17 U.S.C. § 101; 49 U.S.C. § 44107; 49 U.S.C. § 11301. The Patent Act is not among them.

C. *Conclusion*

Because 35 U.S.C. § 261 concerns only transactions that effect a transfer of an ownership interest in a patent, the Patent Act does not preempt Article 9, and neither California Commercial Code § 9104(a) nor § 9302(3) applies. Consequently, Petitioners perfected their security

interest in Debtor's patent by recording it with the California Secretary of State. They have priority over the Trustee's claim because they recorded their interest before the filing of the bankruptcy petition.

AFFIRMED.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

In re: CYBERNETIC SERVICES, INC., d/b/a Silent Radio, Inc., Debtor. PETITIONING CREDITORS; et al., Appellants, v. MATSCO, INC., et al., Appellees.	Nos. 99-56856, 99-56868 BAP No. CC-98-1690-PKRi ORDER (Filed June 1, 2000)

Before: PREGERSON, FERNANDEZ and WARDLAW, Circuit Judges

Appellant Byron Z. Moldo's ("Moldo") motion to transfer this appeal to the Court of Appeals for the Federal Circuit is denied.

Appellant Moldo's motion to strike appellees' opposition to appellant's motion to transfer is denied.

The following briefing schedule shall govern these consolidated appeals: the opening briefs are due June 29, 2000; the answering briefs are due July 31, 2000; and the optional reply briefs are due 14 days after service of the answering briefs.

All parties on a side are encouraged to join in a single brief to the greatest extent practicable. *See* 9th Cir. R. 28-4.

MOTION TO TRANSFER DENIED; MOTION TO STRIKE DENIED.

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

In re CYBERNETIC SERVICES, INC., dba SILENT RADIO, INC., Debtor(s).	Chapter 7 Case No. SV 97-15576 AG **NOTICE OF ENTRY OF JUDGMENT OR ORDER AND CERTIFICATE OF MAILING**
MATSCO, INC. and MATSCO FINANCIAL CORPORATION, Plaintiff, v. CYBERNETIC SERVICES, INC., dba SILENT RADIO, INC., Debtor(s).	

TO ALL PARTIES IN INTEREST ON THE ATTACHED SERVICE LIST:

You are hereby notified, pursuant to Local Bankruptcy Rule 116(1)(a)(iv) that a judgment or order entitled **ORDER GRANTING RELIEF FROM STAY TO FORECLOSE PATENT LIEN** was entered on SEP 14 1998.

I hereby certify that I mailed a copy of this notice and a true copy of the Order or Judgment to the person(s) and entities listed on SEP 14 1998.

DATED: SEP 14, 1998

JON D. CERETTO, Clerk

By NANCY MONROY

(A copy of the judgment or order must be attached to this notice.)

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

In re CYBERNETIC SERVICES, INC., dba SILENT RADIO, INC., Debtors.	Chapter 7 Case No. SV 97-15576 AG ORDER GRANTING RELIEF FROM STAY TO FORECLOSE PATENT LIEN (Filed Sep. 14, 1998)
MATSCO, INC. and MATSCO FINANCIAL CORPORATION, Plaintiff, v. CYBERNETIC SERVICES, INC., dba SILENT RADIO, INC., Defendant.	

In accordance with this court's Findings of Fact and Conclusions of Law concurrently filed,

IT IS ORDERED that Matsco Inc.'s and Matsco Financial Corporation's motion for relief from stay is granted. The automatic stay imposed under 11 U.S.C. § 362(a) is modified to permit Matsco Inc. and Matsco Financial Corporation to foreclose upon their perfected lien encumbering Patent No. 4,620,227 issued October 28, 1996.

Dated: 9/14/98

/s/ Arthur M. Greenwald
Arthur M. Greenwald
United States
Bankruptcy Judge

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UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

In re CYBERNETIC SERVICES, INC., dba SILENT RADIO, INC., Debtors.	Chapter 7 Case No. SV 97-15576 AG
MATSCO, INC. and MATSCO FINANCIAL CORPORATION, Plaintiff, vs. CYBERNETIC SERVICES, INC., dba SILENT RADIO, INC., Defendant.	**FINDINGS OF FACT AND CONCLUSIONS OF LAW GRANTING RELIEF FROM STAY TO FORECLOSE PATENT LIEN** (Filed Sep. 14, 1998)

NATURE OF PROCEEDINGS

On April 23, 1997, certain petitioning creditors filed an involuntary Chapter 7 petition. On June 27, 1997, an order for relief was entered.

A primary asset of the estate consists of a patent for a data recorder designed to capture data from a video signal regardless of the horizontal line in which the data is located. Matsco, Inc. and Matsco Financial Corporation (Matsco), contend that they have a perfected security interest in the patent which is superior to the Chapter 7 Trustee's claim to the patent.

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On May 8, 1997, Matsco filed a motion for relief from stay to pursue their rights under the patent. The matter was continued several times in an effort to narrow the issues separating the parties. On September 8, 1998, the Trustee and Matsco, through their counsel of record, filed an "Amended Stipulation As To Material Facts" wherein the following was recited:

> WHEREAS, in order to avoid the time and expense of presenting a cased [sic] based upon documentary evidence and the testimony of witnesses; and because the Trustee believes that the only issue in defense of the Motion is whether Matsco's security interests are senior to the estate's interests because they were properly perfected in the absence of a filing with the U.S. Patent & Trademark Office ("PTO"), and
>
> WHEREAS, the parties hereto believe this Stipulation to be in the best interests of creditors and the estate;

Final arguments were heard on August 28, 1998 and the matter submitted.

The court having considered the record before the court now makes the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

Facts Stipulated By The Parties (See Amended Stipulation Of Facts Filed September 8, 1998)

1. The remaining subject matter of Matsco's Motion is Patent No. 4,620,227, issued October 28, 1996, and more particularly described in Exhibit "B" to the Declaration of James A. Tiemstra . . . , filed herein on June 15, 1998.

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2. Matsco's secured claim herein against the above-captioned estate is based upon that certain Settlement Agreement and Mutual Release, dated May 23, 1995 (the Agreement) by and between Matsco and the Debtor, as more particularly described in Exhibit "B" to the Declaration of Thomas W. Garecht . . . , filed herein on May 8, 1997, the amount of said claim being the sum of $571,331.67, as of March 14, 1997, plus all interest and properly chargeable attorneys' fees and costs accruing thereafter up to the value of Matsco's collateral herein.

3. Under the Agreement, Matsco retained a blanket security interest in all of the Debtor's assets, pursuant to a Security Agreement and UCC-1 Financing Statement, executed October 17, 1990.

4. The aforesaid Financing Statement was properly prepared, executed by the Debtor and timely filed with the Secretary of State of the State of California on November 19, 1990, and continued in effect by a UCC-2 Continuatio9n [sic] Statement, filed May 24, 1995, as Document No. 95146C0498.

5. The aforesaid Security Agreement and Financing Statement included the Debtor's "general intangibles" which created a security interest in the above-described patent.

6. Matsco did not file the aforesaid Financing Statement or any other document with the United States Patent and Trademark Office (PTO).

7. For the purposes of the Motion, there is no equity in the above-described patent available for the benefit of the within bankruptcy estate.

8. Any conclusion of law deemed to constitute a finding of fact is incorporated by reference herein as a finding of fact.

CONCLUSIONS OF LAW

1. This court has jurisdiction over this adversary proceeding pursuant to 28 U.S.C. §§ 1334 and 157(b). This adversary proceeding is a core proceeding as provided in 28 U.S.C. § 157(b)(2)(G).

2. Venue lies within the Central District of California pursuant to 28 U.S.C. § 1409(a), as pending in this judicial district is the Debtor's Chapter 7 case.

3. As to the patent herein described, the court concludes that Matsco are secured creditors who perfected their security interest in the patent under applicable California law prior to the filing of the bankruptcy petition.

4. Matsco, in order to accomplish perfection, appropriately followed the provisions of Article 9 [sic] the UCC, as codified in the California Commercial Code, by filing with the California Secretary of State the Agreement and Financing Statements prior to the filing of the bankruptcy petition.

5. Matsco was not required to file the Agreement with the Patent and Trademark Office in order to perfect their security interest in the patent. The provisions of Article 9, as adopted by California, rather than the Patent Act, govern the perfection of Matsco's security interest in the patent. *See Transportation Design & Technology, Inc.*, 48 B.R. 635 (Bankr. S.D. Cal. 1985) and *City Bank & Trust Co. v. Otto Fabric, Inc.*, 83 B.R. 780 (D. Kan. 1988).

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6. This Bankruptcy court is not persuaded by the court's comments in the case of *Peregrine Entertainment Co.*, 116 B.R. 194, 204 (D. Cal. 1990) concerning the *Transportation Design & Technology, Inc.* and *City Bank & Trust Co.* cases. In both the *Transportation Design* and *City Bank* cases, these courts have held that under the UCC, security interests in patents need not be recorded in the Patent and Trademark Office to be perfected against lien creditors, as the Patent Act, i.e. 35 U.S.C. § 291 does not specifically provide for lien creditors. This Bankruptcy court concurs.

7. The parties have agreed that a determination as to whether Matsco has a perfected security interest in the patent is dispositive of Matsco's relief from stay motion. As Matsco perfected its security interest in the patent before the filing of the bankruptcy petition, Matsco's interest in the patent has priority over the trustee's claim in a patent. Therefore, Matsco is entitled to relief from stay in order to exercise its lien rights and foreclose on the patent.

8. The court grants Matsco's motion for relief from stay. The automatic stay is modified to permit Matsco to exercise their lien rights under the Agreement and foreclose their lien upon the patent and apply any proceeds from the sale of the patent to the indebtedness owed by the Debtor to Matsco.

9. Any findings of fact deemed to constitute a conclusion of law is incorporated by reference herein as a conclusion of law.

Dated: 9/14/98

/s/ Arthur M. Greenwald
Arthur M. Greenwald
United States Bankruptcy Judge

ORDERED PUBLISHED

UNITED STATES BANKRUPTCY APPELLATE PANEL

OF THE NINTH CIRCUIT

In Re: CYBERNETIC SERVICES, INC., dba Silent Radio, Inc., Debtor.	BAP No. CC-98-1690-PKRi Bk. No. SV 97-15576 AG
BYRON Z. MOLDO, Chapter 7 Trustee, Appellant, v. MATSCO, INC.; MATSCO FINANCIAL CORPORATION; and PETITIONING CREDITORS, Appellees.	OPINION

Argued and Submitted on
March 17, 1999 at Pasadena, California

Filed – September 29, 1999

Appeal from the United States Bankruptcy Court
for the Central District of California

Honorable Arthur M. Greenwald,
Bankruptcy Judge, Presiding

Before: PERRIS, KLEIN and RIEGLE,[1] Bankruptcy Judges.

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[1] Hon. Linda B. Riegle, Chief Bankruptcy Judge for the District of Nevada, sitting by designation.

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PERRIS, Bankruptcy Judge:

This appeal raises the question of whether perfection of a security interest in a patent requires a filing with the United States Patent & Trademark Office ("Patent Office"). The bankruptcy court decided that it did not, and granted the motion of Matsco, Inc. ("Matsco") and Matsco Financial Corporation ("Financial") for relief from the automatic stay[2] to foreclose their patent lien. We AFFIRM.

I. FACTS

The primary asset of the bankruptcy estate of Cybernetic Services, Inc. ("Debtor") is a patent for a data recorder designed to capture data from a video signal regardless of the horizontal line in which the data is located ("the Patent").

Matsco and Financial filed a motion requesting relief from the automatic stay in order to foreclose their security interest in the Patent. Matsco and Financial have a blanket security interest in all of Debtor's assets, including "general intangibles." The parties agree that this was sufficient to create a security interest in the Patent. A UCC-1 Financing Statement covering, *inter alia*, general intangibles was properly prepared, executed by Debtor and timely filed with the Secretary of State of the State of California Matsco and Financial timely filed a UCC-2 Continuation Statement Matsco and Financial did not file

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[2] *See* 11 U.S.C. § 362.

either the Financing Statement or any other document with the Patent Office.

The chapter 7 trustee ("Trustee") asserted that Matsco and Financial should be denied relief from stay because they do not have a perfected security interest in the Patent. Trustee argued that, in order to perfect a security interest in the Patent, a creditor must make the appropriate filing with the Patent Office. The bankruptcy court determined that Matsco and Financial were not required to file with the Patent Office in order to perfect their security interest in the Patent. The court concluded that Article 9 of the Uniform Commercial Code ("UCC"), as adopted by California, rather than the Patent Act, governs the perfection of a security interest in a patent. The bankruptcy court granted Matsco and Financial relief from the automatic stay, and trustee appeals.

II. ISSUE

Whether the bankruptcy court erred in ruling that filing a UCC financing statement with the California Secretary of State rather than with the Patent Office perfected Matsco's and Financial's security interest in the Patent.

III. STANDARD OF REVIEW

The panel reviews a bankruptcy court's order granting relief from the stay for an abuse of discretion. *In re Montclair Retail Ctr., L.P.*, 177 B.R. 663, 664 (9th Cir. BAP 1995). A bankruptcy court necessarily abuses its discretion if it bases its ruling on an erroneous view of the law.

Cannery Row Co. v. Leisure Corp. (In re Leisure Corp.), 234 B.R. 916, 920 (9th Cir. BAP 1999). The bankruptcy court's conclusions of law are reviewed *de novo*. *United States v. Wyle (In re Pacific Far East Lines, Inc.)*, 889 F.2d 242, 244-45 (9th Cir. 1989).

IV. DISCUSSION

A. Overview

The parties agree that, if Matsco's and Financial's security interest is perfected, there is no equity in the Patent available for the benefit of the estate and relief from stay should be granted pursuant to 11 U.S.C. § 362(d)(2). If Matsco and Financial did not perfect their lien on the Patent, Trustee's rights as a hypothetical lien creditor under 11 U.S.C. § 544(a)(1) are superior with respect to the Patent to those of Matsco and Financial.

Thus, the question before the panel is whether Matsco and Financial have a perfected security interest in the Patent. Answering the question depends upon whether a creditor must file or record notice of its interest in a patent with the Patent Office in order to perfect its security interest. This is a question of law that requires the interpretation of §§ 9104(a) and 9302(3)(a) of the California Commercial Code and of the Patent Act,[3] in particular 35 U.S.C. § 261.

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[3] The Patent Act of 1952, as amended, 35 U.S.C. § 1-376 (1984).

B. The Analytical Framework

In dealing with the interrelationship of a federal statute and a state statute, the initial question is whether the federal statute has preempted state law. If the Patent Act has not preempted state law, we must consider whether perfection of a security interest in a patent is governed by Article 9 of the UCC, as adopted in California.[4] The UCC provides two exclusions from its scope that are pertinent in this appeal. Section 9104(a)[5] provides that Article 9 will not apply to security interests "to the extent" that a federal statute regulates the rights of parties to and third parties affected by transactions relating to certain property. Even if the § 9104(a) exclusion does not apply, the Article 9 filing requirements do not apply to transactions as to which there is a federal statute that provides for national registration of a security interest or that specifies a place for filing a security interest that is different from the place designated in Article 9. § 9302(3)(a).[6] The

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[4] The parties agree that California law controls to the extent it is not preempted by the Patent Act.

[5] Cal. Comm. Code § 9104(a) provides:

This division does not apply to . . . :

> (a) A security interest subject to any statute of the United States to the extent that such statute governs the rights of parties to and third parties affected by transactions in particular types of property.

[6] Cal. Comm. Code § 9302 provides, in pertinent part:

> (3) The filing of a financing statement otherwise required by this division is not necessary or effective to perfect a security interest in property subject to any of the following:

essence of Trustee's argument is that the federal patent registration system either preempts state law or results in exclusion of perfection of security interests in patents from the UCC.

For reasons discussed below, we conclude that the Patent Act does not preempt state law and that Article 9 of the UCC controls the perfection of a security interest in a patent.

C. The Patent Act Does Not Preempt State Law Regarding Perfection of Security Interests

Federal law preempts state law when state law "conflicts with federal law, would frustrate a federal scheme, or where Congress clearly intended to occupy the field."

(a) A statute or treaty of the United States which provides for a national or international registration or a national or international certificate of title or which specifies a place of filing different from that specified in this division for filing of the security interest.

. . . .

(4) Compliance with a statute or treaty described in subdivision (3) is equivalent to the filing of a financing statement under this division and a security interest in property subject to the statute or treaty can be perfected only by compliance therewith except as provided in Section 9103 on multiple state transactions. Duration and renewal of perfection of a security interest perfected by compliance with the statute or treaty are governed by the provisions of the statute or treaty; in other respects the security interest is subject to this division.

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Saridakis v. United Airlines, 166 F.3d 1272, 1276 (9th Cir. 1999).

Section 261 of the Patent Act, entitled "Ownership; assignment," effectively defines the scope of the Act.[7] It provides that an interest in a patent is assignable and an assignment is void against a subsequent purchaser or mortgagee without notice of the assignment, unless the assignment has been recorded in the Patent Office. Determining the extent to which the Patent Act regulates the perfection of security interests depends on whether the term "assignment" in the Act includes the grant of a security interest and whether every secured party and lien holder is a "mortgagee." If so, the Patent Act would effectively control perfection of security interests and liens.

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[7] Section 261 provides:

> Subject to the provisions of this title, patents shall have the attributes of personal property.
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> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.
>
> . . . .
>
> An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

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The term "assignment" in patent law involves the transfer of title. *See Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551 (Fed. Cir. 1995) ("assignment" is the conveyance of legal title in patent law); *Public Varieties of Miss., Inc. v. Sun Valley Seed Co.*, 734 F. Supp. 250, 252 (N.D. Miss. 1990) ("assignment is defined as a conveyance which transfers the entire bundle of common law rights residing in a patent").

Before the adoption of the UCC, a variety of personal property security devices were used, including chattel mortgages, that placed title in the mortgagee. An example of a pre-UCC security interest involving the transfer of title was the security interest at issue in *Waterman v. Mackenzie*, 138 U.S. 252, 11 S.Ct. 334, 34 L.Ed. 923 (1891). In *Waterman*, the Supreme Court held that a patent mortgage was an assignment when the mortgage was created by transferring ownership of the patent, subject to defeasance upon payment of a loan.[6]

The UCC created a single security device, which was not dependent on who had title to the property. 4 James J.

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[6] We agree with *In re Transportation Design & Technology, Inc.*, 48 B.R. 635, 639 (Bankr. S.D. Cal. 1985), that *Waterman*

> stands for the proposition that a bona fide purchaser holding a duly recorded conveyance of the ownership rights in a patent or a mortgagee who has recorded its interest as a transfer of title with the Patent Office will defeat the interests of a secured creditor of the grantor or mortgagor who has not filed notice of its security interest in the Patent Office.

Waterman does not hold that all security interests, even those that do not involve a transfer of an ownership interest, must be recorded in the Patent Office to perfect the lien.

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White & Robert S. Summers, *Uniform Commercial Code* § 30-1 (4th ed.1995). Section 9-202 of the UCC provides that Article 9 applies to secured transactions involving personal property regardless of "whether title to collateral is in the secured party or in the debtor." Because transferring title no longer has significance in creating a security interest in personal property, most security interests created after adoption of the UCC do not involve the transfer of title.

The administrative rules regulating the function and operation of the Patent Office are consistent with the conclusion that the focus of the Patent Act recording provisions is transfers of title. The rules are found in Title 37 of the Code of Federal Regulations.[9] 37 C.F.R. 3.11(a) provides that "assignments," accompanied by a cover sheet, will be recorded, and that "other documents" affecting title will be recorded at the discretion of the Commissioner. Assignments are defined as transfers by a party of all or part of its right, title and interest in a patent or patent application. 37 C.F.R. 3.1. The terms "security interest" and "lien" are not included in any of the C.F.R. provisions governing patents.[10] The reason for this omission is that:

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[9] 37 C.F.R. 3.1 *et seq.*

[10] The *Manual of Patent Examining Procedure* (7th ed. 1998) ("Patent Manual") is published by the Patent Office to provide a reference work on Patent Office practices and procedures. It is clear from the Patent Manual that the Patent Office does not consider a security interest or lien to be an "assignment" subject to the mandatory recording provision of 37 C.F.R. 3.11.

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> A security interest is not an "assignment, grant or conveyance" of a patent. Patent law adheres to strict concepts of title, in order to protect the ownership of new inventions. It therefore distinguishes "assignments" of patents (of which "grants" and "conveyances" are specific types) from all other transfers (which are called "licenses").

William C. Hillman, *Documenting Secured Transactions* 2-19 to 2-20 (1998) (footnotes omitted).

This omission of security interests should be contrasted with other federal statutes that expressly include security interests and liens within their scope. One example is the Copyright Act. The Copyright Act defines transfers of ownership:

The recording of "assignment" documents is governed by section 302 of the Patent Manual. Section 302 cites the language of 37 C.F.R. 3.11 pertaining to assignments of applications, patents and registrations as documents which "will be recorded." In contrast, Section 313 denotes security interests as documents other than assignments and provides that these documents, which do not affect title, "may be recorded at the discretion of the Commissioner." Documents that convey a security interest are recorded under Section 313 "in the public interest in order to give third parties notification of equitable interests or other matters relevant to the ownership of a patent or application."

Because the Patent Manual expressly "does not have the force of law or the force of the rules in Title 37 of the Code of Federal Regulations," *see* Foreword to Patent Manual, it appears that the discretionary recording is for purposes of providing actual notice rather than the constructive notice provided through provisions of Article 9 of the UCC. *See generally* Alice Haemmerli, *Security Interests: Where Intellectual Property and Commercial Law Collide*, 96 Colum. L. Rev. 1645, 1668-72 (1996).

> A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

17 U.S.C. § 101. The inclusion of "hypothecation" within the scope of what constitutes "transfer of copyright ownership" evidences an intent to include security interests. The term "hypothecate" means:

> To pledge property as security or collateral for a debt. Generally, there is no physical transfer of the pledged property to the lender, nor is the lender given title to the property; though he has the right to sell the pledged property upon default.

Black's Law Dictionary 742 (6th ed. 1990).

In addition, § 204 of the Copyright Act sets forth the method of executing transfers of copyright ownership. Section 205 clearly sets forth a priority scheme for conflicting transfers and provides that recordation of a document in the Copyright Office "gives all persons constructive notice of the facts stated in the recorded document. . . . "

The extent to which the Federal Copyright Act regulates transfers, including security interests, leads to the conclusion that it preempts state methods of perfecting security interests in copyrights. *National Peregrine, Inc. v. Capitol Fed. Sav. and Loan Ass'n (In re Peregrine Entertainment, Ltd.)*, 116 B.R. 194, 199 (C.D. Cal. 1990). The failure of the Patent Act to include security interests within the

scope of its regulation leads to the opposite conclusion; the Patent Act does not preempt state regulation of security interests in patents. *See In re 199Z, Inc.*, 137 B.R. 778 (Bankr. C.D. Cal. 1992) (Lanham Act trademark legislation does not preempt state regulation of security interests because it does not expressly include security interests within its scope).

The purpose of the Patent Act is "to protect the development of new technology and encourage its use." *Transportation Design*, 48 B.R. at 638. It accomplishes this purpose by providing a "comprehensive regulatory scheme governing ownership rights in a patent. . . ." *Id.* In contrast to the Copyright Act and the other federal statutes discussed in part IV.D. below, the Patent Act is silent regarding rights of lien claimants with competing claims to a patent.

A security interest is "an interest in personal property or fixtures that secures payment or performance of an obligation." Cal. Comm. Code § 1201(36)(a). It is not necessarily a transfer of title to the collateral. In order for a security interest to accomplish its purpose it must protect the secured party against "subsequent or competing lien claimants of its debtor . . . against the debtor transferring title to the collateral free of [the secured party's] interest." *Transportation Design*, 48 B.R. at 639. Although the Patent Act effectively performs the second function, it fails to accomplish the first.

Regulation of ownership and license rights "does not . . . necessarily conflict with an exercise of state rights over the questions of perfection and priority of security interests in the patent." *Id.* at 638. *See also City Bank &*

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Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782 (D. Kan. 1988) (because Congress has not expressly required the filing of an assignment with the Patent Office to perfect a security interest in a patent, notwithstanding amendment to the Patent Act following the advent of modern commercial law, the Act leaves open the area of protection against the interests of lien creditors); *Holt v. United States*, 13 UCC Rep. Serv. 336 (D.D.C. 1973) (35 U.S.C. § 261 applies only where title has been conveyed, not to creation of a security interest).[11]

As one of the treatise writers observed,

> There is much wisdom in the balance struck by *Transportation Design* and *Otto Fabric*. Together, the cases recognize that Section 261 of the Patent Act is not a secured financing statute in the modern sense, its use of the word "mortgagee" notwithstanding. Rather, it is concerned with ownership or title transfers, not the security interests of commercial financers. The lineage of Section 261 is traceable back into the nineteenth century, and the statute is hopelessly out of touch with the notice filing concept incorporated in Article Nine of the U.C.C. which was not widely enacted until 1955 through 1965. The Patent Act says nothing about the priority of either security interests or judgment liens. Thus, it makes good sense to leave this issue to the state law of Article Nine where it is specifically and carefully addressed.

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[11] Although *Transportation Design*, *Otto Fabric*, and *Holt* all analyzed perfection issues under UCC § 9-104(a), we find the analysis applicable for purposes of the current discussion of federal preemption.

. . . .

> Similar caution is appropriate before determining that Article Nine has been preempted if the question arises whether section 261 governs a dispute between competing security interests. Once again, a security interest in an asset is not the equivalent of title to the asset. A secured party is not an assignee or a mortgagee. Only Article Nine contains an extensive treatment of secured party priority.

1C Peter F. Coogan *et al.*, *Secured Transactions Under the Uniform Commercial Code* § 25.08[3][b][iii] (1999) (footnotes omitted).

Given the limited focus and skeletal nature of the Patent Act and its lack of reference to the creation and perfection of security interests, we conclude that the Patent Act does not preempt state regulation of the perfection of security interests in patents. *See* 4 White & Summers, *Uniform Commercial Code* § 30-12.

D. The Existence of the Patent Office Filing System Does Not Exclude Patents from the Article 9 Perfection Requirements

Official Comment 8 to UCC 9-302 refers to three specific federal statutes that provide a filing system adequate to supersede the Article 9 filing system for perfection of security interests: 17 U.S.C. §§ 28, 30 (copyrights),[12]

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[12] See discussion in part IV.C. above.

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49 U.S.C. § 1403 (now § 44107) (aircraft),[13] and 49 U.S.C. § 20(c) (now § 11301) (railroads).[14] Each of those statutes clearly includes the filing of security interests within their scope, each requires that a security interest be filed within the applicable registry to obtain priority and perfection of a security interest, and each provides that a filing provides constructive notice of the security interest.

In contrast, the Patent Act is not sufficiently comprehensive to exclude state methods of perfecting security interests in patents. The Patent Act does not include security interests within any of the scope or definition provisions. Security interests in patents are not assignments governed by the mandatory recording provisions of § 261 of the Patent Act. Because the Patent Office records security interests on a discretionary basis and

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[13] Unlike the Patent Act, 49 U.S.C. § 44107 provides explicit instructions for recording security instruments relating to aircraft:

> (a) Establishment of system. – The Administrator of the Federal Aviation Administration shall establish a system for recording –
>
> . . . .
>
> (2) leases and instruments executed for security purposes. . . .

Under § 44108, the failure to file a security instrument with the FAA administrator precludes constructive notice of the existence of the security instrument and consequently limits the parties against whom it is valid.

[14] Similarly, 49 U.S.C. § 11301(a) provides that a

> "mortgage . . . or security interest in vessels, railroad cars, locomotives, or other rolling stock . . . shall be filed with the Board in order to perfect the security interest that is the subject of such instrument. . . . "

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such recording does not provide constructive notice, the Patent Act registration system is insufficient to provide the sole method of perfecting security interests in patents.

V. CONCLUSION

The bankruptcy court correctly determined that a security interest in the Patent was perfected by the filing of a UCC-1 Financing Statement with the California Secretary of State rather than with the Patent Office. Accordingly, Trustee was unable to avoid the security interest held by Matsco and Financial. Therefore, pursuant to the stipulation of the parties, the bankruptcy estate had no equity in the Patent and granting Matsco and Financial relief from the automatic stay to foreclose their lien in the Patent was not an abuse of the bankruptcy court's discretion. For these reasons we AFFIRM.

NOT FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

In re: CYBERNETIC SERVICES, INC., d/b/a Silent Radio, Inc., Debtor.	No. 99-56856 BAP No. CC-98-01690-PKRi
PETITIONING CREDITORS; BRYON S. MOLDO, Chapter 7 Trustee of the Estate of Cybernetic Services, Inc., dba Silent Radio, Inc. ("Moido"), Appellants, v. Matsco, Inc., Appellee.	
In re: CYBERNETIC SERVICES, INC., d/b/a Silent Radio, Inc., Debtor.	No. 99-56868 BAP No. CC-98-01690-PKRi
BYRON Z. MOLDO, Chapter 7 Trustee, Appellant, v. MATSCO, INC., and MATSCO FINANCIAL CORPORATION, PETITIONING CREDITORS, Appellees.	ORDER (Filed Aug. 2, 2001)

Before: PREGERSON, FERNANDEZ, and GRABER, Circuit Judges.

The petition for rehearing is DENIED.

Constitutional Provisions:

U.S. CONST. art. VI, cl.2:

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Patent Act:

35 U.S.C. § 261 [1982]:
§ 261. Ownership; assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

A certificate of acknowledgement under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, or a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, or apostille of an official designated

by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials of the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for a patent.

An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to such subsequent purchase or mortgage.

Act of July 8, 1870, 16 Stat. 198, c. 230 § 36 & § 89

Sec. 36. *And be it further enacted*, That every patent or any interest therein shall be assignable in law, by an instrument in writing; and the patentee or his assigns or legal representatives may, in like manner, grant and convey an exclusive right under this patent to the whole or any specified part of the United States; and said assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the patent office within three months of the date thereof.

Sec. 89. *And be it further enacted*, That copyrights shall be assignable in law, by any instrument in writing, and such assignment shall be recorded in the office of the librarian of Congress within sixty days after its execution,

in default of which it shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice.

Bankruptcy Code

11 U.S.C. § 544 [1984]:

§ 544. Trustee as lien creditor and as successor to certain creditors and purchasers

(a) The trustee shall have, as of the commencement of the case, and without regard to any knowledge of the trustee or any creditor, the rights and powers of, or may avoid any transfer of property of the debtor or any obligation incurred by the debtor that is voidable by –

(1) a creditor that extends credit to the debtor at the time of commencement of the case, and obtains, at such time and with respect to such credit, a judicial lien on all property on which a creditor on a simple contract could have obtained a judicial lien, whether or not such creditor exists;

(2) a creditor that extends credit to the debtor at the time of commencement of the case, and obtains, at such time and with respect to such credit, an execution against the debtor that is returned unsatisfied at such time, whether or not such creditor exists; or

(3) a bona fide purchaser of real property, other than fixtures, from the debtor, against whom applicable law permits such transfer to be perfected, that obtains the status of a bona fide purchaser and has perfected such

transfer at the time of the commencement of the case, whether or not such a purchaser exists.

(b) The trustee may avoid any transfer of an interest of the debtor in property or any obligation incurred by the debtor that is voidable under applicable law by a creditor holding an unsecured claim that is allowable under section 502 of this title or that is not allowable only under section 502(e) of this title.

Judicial Code

28 U.S.C. § 1295(a)(1) [1999]:

§ 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit.

(a) The United States Court of Appeals for the Federal Circuit shall have the exclusive jurisdiction –

(1) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court of the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;

. . .

California Civil Code:

California Civil Code § 2888 [1872]

§ 2888. No Title Transfer by Lien

Notwithstanding an agreement to the contrary, a lien, or a contract for a lien, transfers no title to the property subject to the lien.

California Code of Civil Procedure:

Note: References are to version effective prior to amendment effective July 1, 2001.

California Code of Civil Procedures § 697.740(a) [1987]:

§ 697.740. Personal property not in custody of levying officer transferred or encumbered; exceptions

Except as provided in Section 9504 of the Commercial Code and in Section 701.630, if personal property subject to an execution lien is not in the custody of a levying officer and the property is transferred or encumbered, the property remains subject to the lien after the transfer or encumbrance except where the transfer or encumbrance is made to one of the following persons:

(a) A person who acquires an interest in the property under the law of this state for reasonable equivalent value without knowledge of the lien. For purposes of this subdivision, value is given for a transfer or encumbrance if, in exchange for the transfer or encumbrance, property

is transferred or an antecedent debt is secured or satisfied.

California Code of Civil Procedure § 697.910 [1983]:

§ 697.910. Application of article

This article applies to liens created by any of the following:

(a) An examination proceeding as provided in Section 708.110, 708.120, or 708.205.

(b) A creditor's suit as provided in Section 708.250.

(c) A charging order as provided in Section 708.320.

California Code of Civil Procedures § 697.920 [1983]:

§ 697.920. Continuation of lien; transfer or encumbrance of property subject to lien

Except as provided in Section 9504 of the Commercial Code and in Section 701.630, a lien described in Section 697.910 continues on property subject to the lien, notwithstanding the transfer or encumbrance of the property subject to the lien, unless the transfer or encumbrance is made to a person listed in Section 697.740.

California Code of Civil Procedure § 708.620 [1983]:

§ 708.620. Circumstances under which appointment of receiver appropriate

The court may appoint a receiver to enforce the judgment where the judgment creditor shows that, considering the interests of both the judgment creditor and the

judgment debtor, the appointment of a receiver is a reasonable method to obtain the fair and orderly satisfaction of the judgment.

California Commercial Code:

Note: references are to version effective prior to amendment effective July 1, 2001.

California Commercial Code § 1201(32) & (33) [1995]:

§ 1201. General Definitions

(32) "Purchase" includes taking by sale, discount, negotiation, mortgage, pledge, lien, issue or reissue, gift or any other voluntary transaction creating an interest in property.

(33) "Purchaser" means a person who takes by purchase.

California Commercial Code § 9102(2) [1985]:

§ 9102. Policy and Scope of Article

. . .

(2) This division applies to security interests created by contract including pledge, assignment, chattel mortgage, chattel trust, trust deed, inventory lien, equipment trust, conditional sale, trust receipt, other lien or title retention contract and lease or consignment intended as

security. This division does not apply to statutory liens except as provided in Section 9310.

California Commercial Code § 9106 [1976]:

§ 9106. Definitions: "Account"; "Contact Right"; "General Intangibles"

"Account" means any right to payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance. "General intangibles" means any personal property (including things in action) other than goods, accounts, chattel paper, documents, instruments, and money. All rights to payment earned or unearned under a charter or other contract involving the use or hire of a vessel and all rights incident to the charter or contract are accounts.

California Commercial Code § 9301 [1993]:

§ 9301. Persons Who Take Priority Over Unperfected Security Interests; "Lien Creditor"

(1) Except as otherwise provided in subdivision (2), an unperfected security interest is subordinate to the rights of all of the following:

(a) Persons entitled to priority under Section 9312.

(b) A person who becomes a lien creditor before the security interest is perfected.

(c) In the case of goods, instruments, documents, and chattel paper, a person who is not a secured party

and who is a transferee in bulk or other buyer not in ordinary course of business to the extent that he gives value and receives delivery of the collateral without knowledge of the security interest and before it is perfected.

(d) In the case of accounts and general intangibles, a person who is not a secured party and who is a transferee to the extent that he gives value without knowledge of the security interest and before it is perfected.

(2) If the secured party files with respect to a purchase money security interest before or within 20 days after the debtor receives possession of the collateral, he takes priority over the rights of a transferee in bulk or of a lien creditor which arise between the time the security interest attaches and the time of filing.

(3) A "lien creditor" means a creditor who has acquired a lien on the property involved by attachment, levy or the like and includes an assignee for benefit of creditors from the time of assignment, and a trustee in bankruptcy from the date of the filing of the petition or a receiver in equity from the time of appointment. "Lien creditor" does not include a creditor who by filing a notice with the Secretary of State has acquired only an attachment or judgment lien on personal property, or both.

(4) A person who becomes a lien creditor while a security interest is perfected takes subject to the security interest only to the extent that it secures advances made before he becomes a lien creditor or within 45 days thereafter or made without knowledge of the lien or pursuant

to a commitment entered into without knowledge of the lien.

California Commercial Code § 9302(1) [1993]:

§ 9302. When Filing Is Required to Perfect Security Interest; Security Interests to Which Filing Provisions of This Article Do Not Apply

(1) A financing statement must be filed to perfect all security interests except the following:

(a) A security interest in collateral in possession of the secured party under Section 9305.

(b) A security interest temporarily perfected in instruments or documents without delivery under Section 9304 or in proceeds for a 10-day period under Section 9306.

(c) A security interest created by an assignment of a beneficial interest in a trust or a decedent's estate.

(d) A purchase money security interest in consumer goods; but filing is required for a motor vehicle or boat required to be registered; and fixture filing is required for priority over conflicting interests in fixtures to the extent provided in Section 9313.

(e) A security interest of a collecting bank (Section 4210) or in securities (Section 8321) or arising under the divisions on sales and leases (see Section 9113) or covered in subdivision (3) of this section.

(f) An assignment for the benefit of all the creditors of the transferor, and subsequent transfers by the assignee thereunder.

(g) A security interest in a deposit account. Such a security interest is perfected:

(i) As to a deposit account maintained with the secured party, when the security agreement is executed.

(ii) As to a deposit account not described in subparagraph (i), when notice thereof is given in writing to the organization with whom the deposit account is maintained.

(h) A security interest in or claim in or under any policy of insurance including unearned premiums. Such interest shall be perfected when notice thereof is given in writing to the insurer.

California Commercial Code § 9305 [1984]:

§ 9305. When Possession by Secured Party Perfects Security Interest Without Filing

A security interest in letters of credit and advices of credit (paragraph (a) of subdivision (2) of Section 5116), goods, instruments (other than certificated securities), money, negotiable documents or chattel paper may be perfected by the secured party's taking possession of the collateral. If such collateral other than goods covered by a negotiable document is held by a bailee, the secured party is deemed to have possession from the time the bailee receives notification of the secured party's interest. A security interest is perfected by possession from the

time possession is taken without relation back and continues only so long as possession is retained, unless otherwise specified in this division. The security interest may be otherwise perfected as provided in this division before or after the period of possession by the secured party.

California Commercial Code § 9504 [1984]:

§ 9504. Secured Party's Right to Dispose of Collateral After Default; Effect of Disposition

(1) A secured party after default may sell, lease or otherwise dispose of any or all of the collateral in its then condition or following any commercially reasonable preparation or processing.

. . .

(4) When collateral is disposed of by a secured party after default, the disposition transfers to a purchaser for value all of the debtor's rights therein, discharges the security interest under which it is made and any security interest or lien subordinate thereto. The purchaser takes free of all such rights and interest even though the secured party fails to comply with the requirements of this chapter or of any judicial proceedings.

(a) In the case of a public sale, if the purchaser has no knowledge of any defects in the sale and if he or she does not buy in collusion with the secured party, other bidders or the person conducting the sale; or

(b) In any other case, if the purchaser acts in good faith.

JAMES A. TIEMSTRA (State Bar No. 96203)
MILLER, STARR & REGALIA
A Professional Law Corporation
1331 No. California Blvd., 5th Floor
Walnut Creek, California 94596
Telephone: (925) 935-9400

Attorneys for MATSCO, INC. and MATSCO FINANCIAL CORPORATION, Secured Creditors

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

In re CYBERNETIC SERVICES, INC. dba SILENT RADIO, INC. Involuntary Debtor.	Case No. SV 97-15576 AG Chapter 7 Case (Involuntary Proceeding) STIPULATION AS TO MATERIAL FACTS ON EMERGENCY MOTION FOR RELIEF FROM STAY, ETC.
MATSCO, INC. and MATSCO FINANCIAL CORPORATION Movant, v. CYBERNETIC SERVICES, INC. dba SILENT RADIO, INC. Respondent.	Date: August 28, 1998 Time: 1:30 p.m. Loc.: 21041 Burbank Blvd. Woodland Hills, CA

WHEREAS, this cause came on regularly for a Final Hearing the Emergency Motion for Relief from Stay and to Prohibit Use of Cash Collateral, filed May 8, 1997, by

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MATSCO FINANCIAL CORPORATION and MATSCO, INC. (hereinafter, collectively, "Matsco");

WHEREAS, in order to avoid the time and expense of presenting a case based upon documentary evidence and the testimony of witnesses; and because the Trustee believes that the only issue in defense of the Motion is whether Matsco's security interests are senior to the estate's interests because they were properly perfected in the absence of a filing with the U.S. Patent & Trademark Office ("PTO"); and

WHEREAS, the parties hereto believe this Stipulation to be in the best interests of creditors and the estate;

IT IS HEREBY STIPULATED by and between the parties hereto, by and through their respective counsel of record, as follows:

1. The remaining subject matter of Matsco's Motion is Patent No. 4, 620, 227, issued October 28, 1996, and more particularly described in Exhibit "B" to the Declaration of James A. Tiemstra . . . , filed herein on June 15, 1998.

2. Matsco's secured claim herein against the above-captioned estate is based upon that certain Settlement Agreement and Mutual Release, dated May 23, 1995 (the "Agreement") by and between Matsco and the Debtor, as more particularly described in Exhibit "B" to the Declaration of Thomas W. Garecht . . . , filed herein on May 8, 1997, the amount of said claim being the sum of $571,331.67, as of March 14, 1997, plus all interest and properly chargeable attorneys' fees and costs accruing thereafter up to the value of Matsco's collateral herein.

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3. Under the Agreement, Matsco retained a blanket, first priority security interest in all of the Debtor's assets, pursuant to a Security Agreement and UCC-1 Financing Statement, executed October 17, 1990.

4. The aforesaid Financing Statement was properly prepared, executed by the Debtor and timely filed with the Secretary of State of the State of California on November 19, 1990, and continued in effect by a UCC-2 Continuation Statement, filed May 24, 1995, as Document No. 95146C0498.

5. The aforesaid Security Agreement and Financing Statement included the Debtor's "general intangibles" which created a security interest in the above-described patent.

6. Matsco did not file the aforesaid Financing Statement or any other document with the PTO.

7. For the purposes of the Motion, there is no equity in the above-described patent available for the benefit of the within bankruptcy estate.

8. There is a second security interest in the above-described patent in favor of Credit Managers Association of California in the approximate sum of $150,000.

9. A third security interest exists in the above-described patent in the approximate sum of $70,000.

Dated: August 18, 1998

MILLER, STARR & REGALIA

By: /s/ James A. Tiemstra
JAMES A. TIEMSTRA
Attorneys for MATSCO, INC. and MATSCO FINANCIAL CORPORATION, Secured Creditors

Dated: August 19, 1998

SALTZBURG, RAY & BERGMAN, LLP

By: /s/ David A. Greene
DAVID A. GREENE
Attorneys for BYRON Z. MOLDO, Chapter 7 Trustee

PROOF OF SERVICE BY MAIL

I, Josephine Velazquez, certify and declare as follows:

I am over the age of eighteen years, and not a party to this action. My business address is Miller, Starr & Regalia, 1331 N. California Blvd., Fifth Floor, P.O. Box 8177, Walnut Creek, California, 94596, which is located in the county where the mailing described below took place.

I am readily familiar with the business practice at my place of business for collection and processing of correspondence for mailing with the United States Postal Service. Correspondence so collected and processed is deposited with the United States Postal Service that same day in the ordinary course of business.

On August 25, 1998, at my place of business at Walnut Creek, California, copies of the foregoing document

entitled: STIPULATION AS TO MATERIAL FACTS ON EMERGENCY MOTION FOR RELIEF FROM STAY, ETC. were placed for deposit in the United States Postal Service in sealed envelopes, with postage fully prepaid, addressed to:

CHAPTER 7 TRUSTEE

Byron Z. Moldo
10960 Wilshire Blvd.,
10th Fl.
Los Angeles, CA 90024

COUNSEL FOR CHAPTER 7 TRUSTEE

David A. Greene
Saltzburg, Ray &
Bergman, LLP
10960 Wilshire Blvd.,
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Los Angeles, CA 90024

COUNSEL FOR PETITIONING CREDITORS

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Steinberg, Nutter & Brent
501 Colorado Avenue,
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Santa Monica, CA 90401

COUNSEL FOR SHAREHOLDERS

Steve Biegenzahn, Esq.
Biegenzahn Weinberg
21031 Venture Blvd.,
Ste. 905
Woodland Hills, CA
91364-2203

U.S. TRUSTEE

Office of the U.S. Trustee
221 N. Figueroa St.,
Ste. 800
Los Angeles, CA 90012

REQUEST FOR SPECIAL NOTICE

Gary A. Plotkin, Esq.
Plotkin, Rapoport &
Nahmias
16633 Ventura Blvd.,
Suite 800
Encino, CA 91436-1836

Lewis Solomon
Cybernetic Data Products
144 Nassau Blvd.
West Hempstead, NY
11552

Max Fox
5160 Donna Avenue
Tarzana, CA 91356

and those envelopes were placed for collection and mailing on that date following ordinary business practices.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on August 25, 1998, at Walnut Creek, California.

/s/ Josephine Velazquez
Josephine Velazquez

12/03/01 MON 16:36 FAX 005

MARCY J. K. TIFFANY
United States Trustee
221 North Figueroa Street
Suite 800
Los Angeles, CA 90012
(213) 894-6705

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

In re:	) Chapter 7A
CYBERNETIC SERVICES, INC.	) Case No. SV 97-15576-AG
	) NOTICE OF APPOINTMENT OF TRUSTEE AND FIXING OF BOND; ACCEPTANCE OF APPOINTMENT AS INTERIM TRUSTEE

Pursuant to 11 U.S.C. 701 and 11 U.S.C. 3222

BYRON Z. MOLDO OF LOS ANGELES, CA

is appointed Interim Trustee of the case of said debtor(s) 8 and is hereby designated to preside at the meeting of creditors. This case is covered by the chapter 7 blanket bond on file with the Court on behalf of the Trustees listed on Schedule A of the bond and any amendments or modifications thereto.

Unless creditors during the meeting of creditors held pursuant to 11 U.S.C. 341(a) elect another trustee, the Interim Trustee appointed herein shall serve as trustee

without further appointment or qualification, provided that the trustee is disinterested.

DATED: JULY 2, 1997

MARCY J.K. TIFFANY

UNITED STATES TRUSTEE

I, the undersigned, affirm that to the best of my knowledge and belief, I am disinterested within the meaning of 11 U.S.C. 101(14), and on this basis, I hereby accept my appointment as Interim Trustee in the above case. I will immediately notify the United States Trustee if I become aware of any facts to the contrary.

DATED: 7/2/97

/s/ Byron Z. Moldo
BYRON Z. MOLDO
Interim Trustee

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

IN RE: CYBERNETIC SERVICES, INC. dba SILENT RADIO, INC. DEBTOR(S)	CASE NO. SV 97-15576-AG Chapter 7 X 11 _ ORDER OF RELIEF AND ORDER TO FILE SCHEDULES AND STATEMENT OF AFFAIRS

On the consideration of the petition filed on 4-23-97 against the above-named debtor(s), an Order of Relief under Chapter 7 of Title 11 of the United States Code is GRANTED.

IT IS FURTHER ORDERED that the above-named debtor(s) shall prepare, make oath to, and file in this Court, within fifteen days from the date hereof, a *schedule of his property, showing the amount and kind of property, the location thereof and its money value in detail; and a list of all of its creditors showing their residences or place of business if known, or if unknown that fact to be stated, the amount due to or claimed by each of them, the consideration thereof, the date each debt was incurred and the security held by them, if any; also a *statement of its affairs.

DATED: JUN 27 1997

ARTHUR M. GREENWALD
U.S. BANKRUPTCY JUDGE

In Chapter 7 cases, file an original plus three (3) copies.

In Chapter 11 cases, file an original plus six (6) copies.

Rev. 1-92 B-2065

ORDER OF RELIEF AND ORDER TO FILE SCHEDULES AND STATEMENT OF AFFAIRS

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Paul M. Brent, Esq. SBN 125976
STEINBERG, NUTTER & BRENT,
LAW CORPORATION
501 Colorado Avenue, Suite 300
Santa Monica, California 90401-2426
(310) 451-9714

04/23/97 **FILED** 09:53:59
SV97-15576AG
DEBTOR: CYBERNETIC SERVICES, INC
JUDGE: HON. A. Greenwald - 460
TRUSTEE:
CHAPTER: 07 (INCOMPLETE)
341A:
ADR:

CLERK, U.S. BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIF. DEPUTY: 610
RECEIPT NO: SV-07840 $145.00

Attorneys for: Petitioning Creditors

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

In re:	) Bankruptcy No.:
CYBERNETIC SERVICES, INC. dba SILENT RADIO, INC.	) Involuntary Chapter 7
Involuntary Debtor.	) **INVOLUNTARY PETITION CHAPTER 7**
	) [No Hearing Set]

Name of Debtor: CYBERNETIC SERVICES, INC. dba SILENT RADIO, INC.

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Tax Id No.: Unknown

Location of Principal Assets: 20732 Lassen Street, Chatsworth, CA

INFORMATION REGARDING DEBTOR

Petitioner Believes: Debts are primarily business debts

Type of Debtor: Corporation

Type of Business: Service/Business

VENUE

Debtor has been domiciled or has had a residence, principal place of business or principal assets in the District for 180 days immediately preceding the date of this petition or for a longer part of such 180 days than in any other District

THERE ARE NO PENDING BANKRUPTCY CASES FILED BY OR AGAINST ANY PARTNER OR AFFILIATE OF THIS DEBTOR

ALLEGATIONS

Petitioner(s) are eligible to file this petition pursuant to 11 U.S.C. § 303(b).

The debtor is a person against whom an order for relief may be entered under title 11 of the United States Code.

The Debtor is generally not paying such debtor's debts as they become due, unless such debts are the

subject of a bona fide dispute. The claims of the petitioning creditors are not subject to bona fide dispute.

In re: **Involuntary Debtor**

CYBERNETIC SERVICES, INC. dba SILENT RADIO, INC.

TRANSFER OF CLAIM: None.

REQUEST FOR RELIEF

Petitioner(s) request that an order for relief be entered against the debtor under the Chapter of title 11, United Stat [sic] Code, specified on this petition.

Petitioner(s) declare under penalty of perjury that the foregoing is true and correct according to the best of their knowledge, information and belief.

Don Hartley /s/
Signature of Petitioner or Representative
(State, Title)

PARTNER 4/23/97
Don Hartley Date Signed
Dynamic Sound
4910 Aircenter Circle, Suite 108
Reno, Nevada 89502

Steve Emery /s/
Signature of Petitioner or Representative
(State, Title)

Mass - Director 4/23/97
Steve Emery Date Signed
Hannal Inc.
1359 Hancock Street
Quincy, Massachusetts 02171

12/03/01 MON 16:36 FAX 012

Brad Savage /s/
Signature of Petitioner or Representative
(State, Title)

New York, Secretary 4/23/97
Brad Savage Date Signed
R and S Communications
2 JDF Court
Oyster Bay, New York 11711
N/A RNS Communications, Inc.
33 Library Lane
Bayville, NY 11709

PETITIONING CREDITORS

Name and Address of Petitioner	Nature of Claim	Amount of Claim
Don Hartley Dynamic Sound 4910 Aircenter Circle, Suite 100 Reno, Nevada 09502 (702) 829-7988	Services Rendered/Breach of Contract	$200,000.00
Steve Emery Hannal Inc. 1359 Hancock Street Quincy, Massachusetts 02171 (617) 328-6116	Services Rendered/Breach of Contract	$200,000.00
Brad Savage R and S Communications 2 JDF Court Oyster Bay, New York 11711 (516) 922-1000	Services Rendered/Breach of Contract	$300,000.00

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Dated: April 23, 1997

STEINBERG, NUTTER & BRENT,
LAW CORPORATION

/s/ Paul M. Brent
PAUL M. BRENT,
Attorney for Petitioning
Creditors

CYBERNETIC SERVICES INC
dba SILENT RADIO, INC.
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